

HATFIELD

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

IN RE: ADAMS GOLF, INC. : CONSOLIDATED
SECURITIES LITIGATION : C.A. NO. 99-371 KAJ
_____ X

ORAL DEPOSITION OF DARL HATFIELD

Thursday, June 8, 2006

The oral deposition of DARL HATFIELD was held at the law offices of Akin Gump Strauss Hauer & Feld, LLP, 1700 Pacific Avenue, Suite 4100, Dallas, Texas, from 9:34 a.m. to 12:52 p.m., before Jamie K. Israelow, a Certified Shorthand Reporter in and for the State of Texas, Registered Professional Reporter, Certified Realtime Reporter and Certified LiveNote Reporter.

RSA/VERITEXT COURT REPORTING COMPANY

1845 Walnut Street, 15th Floor

Philadelphia, PA 19103

(215) 241-1000 (888) 777-6690

VERITEXT PA COURT REPORTING COMPANY
(215) 241-1000 (888) 777-6690 (610) 434-8588

Page 42	Page 44
<p>10:22:29 1 from a financial standpoint, at least through the</p> <p>10:22:34 2 third quarter. The only time that it started to</p> <p>10:22:36 3 have an impact is when you started to get a</p> <p>10:22:41 4 customer -- well, you had one customer that said</p> <p>10:22:44 5 they wouldn't purchase.</p> <p>10:22:44 6 You also had some customers in</p> <p>10:22:47 7 fourth quarter later that said: We need some</p> <p>10:22:50 8 price support for the club.</p> <p>10:22:56 9 All of this happened after the</p> <p>10:22:59 10 market slowed substantially, and the supply and</p> <p>10:23:02 11 demand equation kind of changed at that point, and</p> <p>10:23:05 12 retailers had a lot of clubs, and they wanted to</p> <p>10:23:08 13 sell them at a lower price.</p> <p>10:23:10 14 Q Right.</p> <p>10:23:11 15 A And at that point, one thing that</p> <p>10:23:13 16 they could use as kind of a bargaining, I think,</p> <p>10:23:18 17 matter is the fact that Costco was selling clubs</p> <p>10:23:21 18 cheaper than they were.</p> <p>10:23:24 19 Q Uh-huh. Well, as you know -- again,</p> <p>10:23:29 20 a topic of much discussion in this lawsuit: What</p> <p>10:23:34 21 is your opinion? What do you view as the factors</p> <p>10:23:37 22 that contributed to the decline in the Adams share</p> <p>10:23:42 23 price post-IPO?</p> <p>10:23:46 24 MR. BESSETTE: Just</p>	<p>10:25:08 1 opinion, that in July of '98 had a negative impact</p> <p>10:25:15 2 on the share price?</p> <p>10:25:17 3 A Oh, July of '98 --</p> <p>10:25:19 4 Q Yeah.</p> <p>10:25:19 5 A -- immediately after offering?</p> <p>10:25:21 6 No, I don't think the gray</p> <p>10:25:22 7 marketing had any effect on that. I think it was</p> <p>10:25:25 8 simply the golf market in general. I know that</p> <p>10:25:29 9 Callaway had -- had put out some very negative</p> <p>10:25:33 10 comments about the market, and I think that's</p> <p>10:25:36 11 primarily the reason the stock dropped. But</p> <p>10:25:38 12 that's all speculation.</p> <p>10:25:40 13 Q Understood. I'm simply asking your</p> <p>10:25:45 14 opinion. I'm not -- and sitting here today,</p> <p>10:25:52 15 that's -- that's about it, as far as these</p> <p>10:25:56 16 negative influences that you can think of this</p> <p>10:25:58 17 morning?</p> <p>10:25:59 18 A Yes.</p> <p>10:26:01 19 Q And you've made it clear that you do</p> <p>10:26:03 20 not include gray marketing among them?</p> <p>10:26:05 21 A I do not. I don't think it had any</p> <p>10:26:07 22 effect at all. It just was not significant.</p> <p>10:26:29 23 MR. MARA: Does anybody need a</p> <p>10:26:30 24 break? I actually kind of do.</p>
Page 43	Page 45
<p>10:23:46 1 immediately post? Post-IPO could be --</p> <p>10:23:51 2 MR. MARA: Yeah. Yeah.</p> <p>10:23:53 3 Q (By Mr. Mara) In July of '98.</p> <p>10:23:55 4 MR. BESSETTE: Okay.</p> <p>10:23:56 5 A I think it probably -- the primary</p> <p>10:23:58 6 factor was just a slowdown in the golf market in</p> <p>10:24:01 7 general. The -- all of the golf companies in --</p> <p>10:24:04 8 in the industry had significant slowdown, had</p> <p>10:24:07 9 talked about it, and I think we probably got drug</p> <p>10:24:15 10 in with the rest of that.</p> <p>10:24:16 11 I guess the other factors that</p> <p>10:24:19 12 contributed were, of course, the seasonality of</p> <p>10:24:21 13 the club, third and fourth quarter normally are</p> <p>10:24:26 14 going to be worst quarters than the second</p> <p>10:24:36 15 quarter, and the fact that the club had been very,</p> <p>10:24:38 16 very popular. We sold a lot of clubs, and there's</p> <p>10:24:43 17 a limited market potential for that club.</p> <p>10:24:59 18 Q (By Mr. Mara) That third one, is</p> <p>10:25:00 19 that also referred -- is that product maturity?</p> <p>10:25:03 20 Is that --</p> <p>10:25:04 21 A I think that's an appropriate</p> <p>10:25:06 22 description.</p> <p>10:25:07 23 Q Same thing.</p> <p>10:25:07 24 Anything else, in your</p>	<p>10:26:34 1 MR. BESSETTE: It's time to --</p> <p>10:26:34 2 (A recess was taken from</p> <p>10:40:24 3 10:26 to 10:40.)</p> <p>10:40:24 4 MR. MARA: Back on the record.</p> <p>10:40:40 5 Not much yet happening on the record, but we're</p> <p>10:40:42 6 back on the record.</p> <p>10:40:43 7 Q (By Mr. Mara) Well, I brought along,</p> <p>10:40:46 8 as all the practice of depositions, a number of</p> <p>10:40:48 9 documents, so I'll just kind of start plowing</p> <p>10:40:51 10 through them. I have limited questions on each</p> <p>10:40:54 11 one.</p> <p>10:40:56 12 This document is rather thick,</p> <p>10:40:59 13 but my question pertains only to the first page,</p> <p>10:41:04 14 and we haven't even really dealt with the other</p> <p>10:41:06 15 pages. This was previously marked as Exhibit 76.</p> <p>10:41:14 16 It is the minutes of the regular meeting of the</p> <p>10:41:17 17 board of directors of Adams Golf of July 22nd,</p> <p>10:41:22 18 1998.</p> <p>10:41:34 19 MR. MARA: For the record,</p> <p>10:41:35 20 it's Adams 004492 through 004518.</p> <p>10:42:05 21 Q (By Mr. Mara) And again, to save</p> <p>10:42:06 22 time and to focus your thoughts, my question very</p> <p>10:42:11 23 simply is: Toward the bottom of the first page,</p> <p>10:42:15 24 there's a paragraph that begins with the words:</p>

12 (Pages 42 to 45)

VERITEXT PA COURT REPORTING COMPANY
(215) 241-1000 (888) 777-6690 (610) 434-8588

b62b3ff5-1d3b-45f6-9642-e36a82a00e3c

Page 54	Page 56
<p>10:54:36 1 that I did after the call</p> <p>10:54:59 2 Q (By Mr. Mara) I believe you said</p> <p>10:55:00 3 that the -- as a group, you were shocked or</p> <p>10:55:04 4 surprised by what had happened with the stock</p> <p>10:55:07 5 price up till July 28th. Is that fair?</p> <p>10:55:12 6 A I think that's a fair</p> <p>10:55:15 7 characterization, yeah.</p> <p>10:55:16 8 Q What -- which of these factors listed</p> <p>10:55:20 9 on Adams 003948 shocked you the most? Which do</p> <p>10:55:27 10 you feel had the greatest negative impact?</p> <p>10:55:29 11 MR. BESSETTE: I'm just going</p> <p>10:55:29 12 to object. Those -- those might be two separate</p> <p>10:55:33 13 questions.</p> <p>10:55:33 14 MR. MARA: Okay.</p> <p>10:55:34 15 Q (By Mr. Mara) Which -- which do you</p> <p>10:55:35 16 think had the greatest negative impact?</p> <p>10:55:40 17 A On what?</p> <p>10:55:41 18 Q On share price.</p> <p>10:55:43 19 A Okay.</p> <p>10:55:44 20 Q Sorry.</p> <p>10:55:44 21 MR. BESSETTE: On the decline</p> <p>10:55:45 22 in share price?</p> <p>10:55:46 23 MR. MARA: Yeah.</p> <p>10:55:47 24 A I would say probably, in my opinion,</p>	<p>10:57:18 1 Q So, for example, the -- the line item</p> <p>10:57:22 2 with Orlimar certainly didn't come as a surprise?</p> <p>10:57:27 3 A No.</p> <p>10:57:45 4 Q Okay. However, Callaway's did, I</p> <p>10:57:47 5 assume, just by reading this: The release for the</p> <p>10:57:51 6 second quarter predicted much poorer performance</p> <p>10:57:54 7 than had been predicted by analysts.</p> <p>10:57:56 8 So that was -- you guys at</p> <p>10:58:02 9 Adams Golf were expecting much better numbers out</p> <p>10:58:08 10 of Callaway?</p> <p>10:58:08 11 A I can't say what anybody else was</p> <p>10:58:08 12 expecting, but I was personally surprised at the</p> <p>10:58:11 13 Callaway press release.</p> <p>10:58:22 14 Q Okay. The next document was</p> <p>10:58:24 15 previously marked as Exhibit Number 57.</p> <p>10:58:33 16 MR. BESSETTE: Thank you.</p> <p>10:58:34 17 MR. MARA: And for the record,</p> <p>10:58:36 18 it is Adams 0028451, 0028452.</p> <p>11:01:19 19 Q (By Mr. Mara) You've had a chance to</p> <p>11:01:20 20 familiarize yourself with the document?</p> <p>11:01:21 21 A Yes.</p> <p>11:01:22 22 Q Have you seen this document before</p> <p>11:01:34 23 today?</p> <p>11:01:34 24 A I may have seen it back in '98, but I</p>
Page 55	Page 57
<p>10:55:50 1 it would be Callaway's press release.</p> <p>10:55:55 2 Q (By Mr. Mara) And why? What was it</p> <p>10:55:56 3 about that?</p> <p>10:55:57 4 A I think Callaway was perceived as</p> <p>10:55:59 5 kind of an industry leader, and they were having</p> <p>10:56:02 6 some problems.</p> <p>10:56:12 7 Q Were any of these one, two, three,</p> <p>10:56:15 8 four, five factors, as of July 28th, 1998 -- were</p> <p>10:56:22 9 you blindsided by any of them? In other words,</p> <p>10:56:24 10 I'll be specific: Were any of them events or</p> <p>10:56:30 11 things that came to your knowledge just days</p> <p>10:56:32 12 before July 28th, 1998?</p> <p>10:56:41 13 A I don't know exactly when these came</p> <p>10:56:43 14 to our attention.</p> <p>10:56:49 15 Q Okay. But had there been -- for</p> <p>10:56:50 16 example, are you able to recall if there were</p> <p>10:56:52 17 discussions that Adidas may report poor results</p> <p>10:56:58 18 for its Taylor Made division?</p> <p>10:57:00 19 A No, I don't remember any discussions</p> <p>10:57:02 20 of that nature.</p> <p>10:57:06 21 Q Okay. And now, I know from the</p> <p>10:57:07 22 record in the case that Orlimar was a significant</p> <p>10:57:12 23 topic of discussion at Adams Golf at that time.</p> <p>10:57:18 24 A Yes.</p>	<p>11:01:37 1 don't specifically recall this.</p> <p>11:01:41 2 Q Okay. Why do you think you may have</p> <p>11:01:42 3 seen it back in '98?</p> <p>11:01:43 4 A Because I had discussions with</p> <p>11:01:45 5 Barney. He was very upset with the inside sales</p> <p>11:01:51 6 group, and he had told me about that on a couple</p> <p>11:01:54 7 of occasions, and some of the things that he has</p> <p>11:01:58 8 in here are basically what I heard during those</p> <p>11:02:01 9 conversations.</p> <p>11:02:03 10 Q So it's reasonable to assume those</p> <p>11:02:05 11 conversations took place prior to August 14th,</p> <p>11:02:10 12 1998?</p> <p>11:02:11 13 A Well, I think it's reasonable to</p> <p>11:02:14 14 assume they took place sometime around that date.</p> <p>11:02:22 15 Q Okay. Ric Jarrett was a consultant?</p> <p>11:02:26 16 Well, I'll strike that.</p> <p>11:02:27 17 Who was Ric Jarrett?</p> <p>11:02:28 18 A The only thing I know about Ric</p> <p>11:02:30 19 Jarrett is he was an acquaintance of Barney's</p> <p>11:02:40 20 Q Are you able to recall, was he -- he</p> <p>11:02:42 21 left the company?</p> <p>11:02:43 22 A As far as I know, he never worked for</p> <p>11:02:45 23 the company.</p> <p>11:02:45 24 Q Okay. He was --</p>

15 (Pages 54 to 57)

VERITEXT PA COURT REPORTING COMPANY
(215) 241-1000 (888) 777-6690 (610) 434-8588

b62b3ff5-1d3b-45f6-9642-e36a82a00e3c

Page 58	Page 60
<p>11:02:47 1 A At least not since I had been there.</p> <p>11:02:57 2 Q Well, in general, if -- if I may,</p> <p>11:03:01 3 just turning to the first paragraph on the second</p> <p>11:03:05 4 page, again, I -- this very much appears to have</p> <p>11:03:10 5 been written by Barney Adams. Is that fair, the</p> <p>11:03:13 6 memo?</p> <p>11:03:14 7 A This would definitely be a Barney</p> <p>11:03:17 8 memo.</p> <p>11:03:18 9 Q Okay. It's -- Barney says on the</p> <p>11:03:20 10 second page, quote: Here's what I know. I've</p> <p>11:03:24 11 researched this to the point where I know there's</p> <p>11:03:26 12 enough truth that A through I had about reality.</p> <p>11:03:30 13 Did you participate in</p> <p>11:03:35 14 researching the points A through I in this memo?</p> <p>11:03:38 15 A No.</p> <p>11:03:38 16 Q Did you discuss -- well, strike that.</p> <p>11:03:50 17 Do you agree -- we'll take it</p> <p>11:03:52 18 quickly point by point.</p> <p>11:03:53 19 Do you agree, or at that time</p> <p>11:03:55 20 in August of 1998 did you agree that the</p> <p>11:03:59 21 department staff had very low morale in inside</p> <p>11:04:05 22 sales?</p> <p>11:04:05 23 MR. BESSETTE: And if you</p> <p>11:04:06 24 know.</p>	<p>11:05:01 1 of the inside sales staff?</p> <p>11:05:03 2 A No, I did not.</p> <p>11:05:03 3 Q Prior to August 14th of 1998?</p> <p>11:05:06 4 A No.</p> <p>11:05:08 5 Q Okay.</p> <p>11:05:08 6 A Or subsequent to that.</p> <p>11:05:10 7 Q So to cut to the chase, this memo was</p> <p>11:05:12 8 prepared without your participation?</p> <p>11:05:14 9 A That's correct.</p> <p>11:05:22 10 Q All right. Are you able to recall</p> <p>11:05:24 11 Item C: They know cheating (at least in the form</p> <p>11:05:28 12 of double shipments) occurs and are concerned that</p> <p>11:05:33 13 such action is quietly endorsed?</p> <p>11:05:36 14 Were you -- had you had any</p> <p>11:05:39 15 discussions about double shipments with Barney</p> <p>11:05:43 16 Adams or anyone else in August of 1998 or July of</p> <p>11:05:50 17 1998?</p> <p>11:05:50 18 A I did not have any discussions with</p> <p>11:05:53 19 Barney. I did have someone, and I can't recall</p> <p>11:05:56 20 who it was, that came to me and said that there</p> <p>11:06:00 21 was one inside salesperson that they thought had</p> <p>11:06:04 22 overshipped a customer.</p> <p>11:06:09 23 Q Okay. And you're unable to recall</p> <p>11:06:10 24 who conveyed that message to you?</p>
Page 59	Page 61
<p>11:04:06 1 Q (By Mr. Mara) I mean, if you know.</p> <p>11:04:07 2 A I don't think that I can give an</p> <p>11:04:09 3 opinion on that, because I wasn't close enough to</p> <p>11:04:12 4 the sales group in general to know.</p> <p>11:04:16 5 Q Mark Gonsalves was -- headed up that</p> <p>11:04:18 6 group at that time --</p> <p>11:04:19 7 A Yes.</p> <p>11:04:19 8 Q -- is that true?</p> <p>11:04:21 9 How often did you speak with</p> <p>11:04:24 10 Mark Gonsalves, we'll say formally, on -- on</p> <p>11:04:27 11 business at that time?</p> <p>11:04:31 12 A Formally, probably only at the</p> <p>11:04:33 13 management meetings that we had.</p> <p>11:04:34 14 Q Okay. And those were weekly?</p> <p>11:04:36 15 A Generally, yes.</p> <p>11:04:39 16 Q And then informally, you'd bump into</p> <p>11:04:43 17 him in the hallway?</p> <p>11:04:44 18 A His office was right next to mine, so</p> <p>11:04:46 19 I would see him frequently throughout the day.</p> <p>11:04:49 20 Q But he was not a direct report to</p> <p>11:04:51 21 you, so --</p> <p>11:04:52 22 A No, he was not.</p> <p>11:04:56 23 Q So then it's reasonable for me to say</p> <p>11:04:58 24 that you did not have discussions with any members</p>	<p>11:06:12 1 A I don't recall who it was.</p> <p>11:06:14 2 Q And the inside sales staff member,</p> <p>11:06:15 3 again, cutting to the chase, was that Jay Greaney?</p> <p>11:06:22 4 A Yes.</p> <p>11:06:22 5 Q Did you work with -- did you talk to</p> <p>11:06:25 6 Jay Greaney?</p> <p>11:06:26 7 A I did not talk to him.</p> <p>11:06:27 8 Q Either formally or informally?</p> <p>11:06:30 9 A No.</p> <p>11:06:30 10 Q Just your business passed --</p> <p>11:06:32 11 A I did not talk to him.</p> <p>11:06:36 12 Q Are you aware that, obviously, Jay</p> <p>11:06:38 13 Greaney was asked to resign from Adams Golf?</p> <p>11:06:42 14 A Yes.</p> <p>11:06:43 15 Q Did you participate in any</p> <p>11:06:44 16 discussions with anyone about asking him to tender</p> <p>11:06:47 17 his resignation?</p> <p>11:06:49 18 A No.</p> <p>11:06:49 19 Q Were you aware that it was taking</p> <p>11:06:50 20 place when it took place?</p> <p>11:06:56 21 A I'm not sure that I was aware of it</p> <p>11:06:58 22 until after he was terminated, or at the time he</p> <p>11:07:01 23 was terminated.</p> <p>11:07:01 24 Q Did you have an opinion at that time</p>

16 (Pages 58 to 61)

VERITEXT PA COURT REPORTING COMPANY
(215) 241-1000 (888) 777-6690 (610) 434-8588

b62b3ff5-1d3b-45f6-9642-e36a82a00e3c

Page 62

Page 64

11:07:06 1 as to whether or not his termination was
 11:07:06 2 appropriate?
 11:07:09 3 A I have no opinion.
 11:07:16 4 Q The -- when the message was conveyed
 11:07:20 5 to you about this suspected double shipment, are
 11:07:28 6 you aware of what, if any, investigation took
 11:07:30 7 place after that?
 11:07:30 8 A Are you talking about personally?
 11:07:32 9 Q Well, I assume you didn't investigate
 11:07:34 10 it in any way, or is that assumption incorrect?
 11:07:39 11 A The only thing that I did is when I
 11:07:40 12 became aware of it, I went in and told Mark that
 11:07:44 13 I -- this person had told me that this had
 11:07:47 14 occurred, and asked him, one, if he was aware of
 11:07:52 15 it, and two, if he condoned it. And he said
 11:07:56 16 absolutely not in both indications
 11:08:00 17 Q Is it fair to say, then, that -- I
 11:08:02 18 know you've testified you do not recall who
 11:08:04 19 brought that information to you. Was it someone
 11:08:11 20 from outside the inside sales staff? Are you able
 11:08:13 21 to say that much?
 11:08:14 22 A I -- I really don't recall
 11:08:18 23 Q Okay.
 11:08:18 24 A I suspect that it probably is,

11:09:38 1 I guess the other factors that
 11:09:40 2 I considered was that most people, when they
 11:09:45 3 receive more clubs than they order, call us up and
 11:09:49 4 say: You sent me too many. I need to return
 11:09:53 5 them.
 11:09:53 6 The other thing I think
 11:09:58 7 entered my mind at that time was that we do
 11:10:00 8 establish a provision for returning clubs, and we
 11:10:04 9 look at historical history and trends, and we look
 11:10:09 10 at them without regard to why people are returning
 11:10:13 11 clubs. So this -- if people were returning clubs
 11:10:16 12 because of this factor, first of all, I felt that
 11:10:19 13 they would be very insignificant; and secondly,
 11:10:22 14 they would have been included in our provision for
 11:10:25 15 returning clubs.
 11:10:25 16 Q I see. Okay. I may have asked this,
 11:10:38 17 but were you aware of what, if any, investigation
 11:10:42 18 Mark Gonsalves took after you conveyed this
 11:10:44 19 information to him?
 11:10:45 20 A I'm not.
 11:10:46 21 Q And there was no subsequent
 11:10:47 22 conversation. Okay.
 11:10:50 23 MR. BESSETTE: Didn't he ask
 11:10:50 24 you to address the group?

Page 63

Page 65

11:08:19 1 because I really didn't have many conversations
 11:08:23 2 with the inside sales group.
 11:08:26 3 Q Was -- how did Gonsalves react when
 11:08:29 4 you relayed this information to him about the
 11:08:34 5 suspected double shipment?
 11:08:34 6 A He acted very surprised.
 11:08:45 7 Q And that you -- you believe this
 11:08:47 8 morning that that discussion with Gonsalves took
 11:08:50 9 place prior to August 14th, 1998?
 11:08:53 10 A No, I can't say that.
 11:09:00 11 Q Okay. Did you have any follow-up
 11:09:01 12 discussions with Mark Gonsalves about this issue
 11:09:05 13 after that initial discussion when you told him
 11:09:08 14 you had heard this was going on and whether or not
 11:09:10 15 he condoned it?
 11:09:12 16 A No, I had no follow-up with him.
 11:09:13 17 Q What was your reaction when this
 11:09:15 18 message was conveyed to you that this activity was
 11:09:20 19 suspected?
 11:09:22 20 A My reaction was I didn't have a whole
 11:09:25 21 lot of concern because, as I understood it, it
 11:09:27 22 involved one individual and an individual that
 11:09:31 23 sold primarily to on-course golf shops, which was
 11:09:36 24 a very, very small percentage of our sales.

11:10:53 1 THE WITNESS: He did ask me to
 11:10:56 2 attend a sales meeting
 11:10:58 3 MR. BESSETTE: That might be
 11:10:58 4 part of your question. That's why --
 11:11:00 5 THE WITNESS: I don't know
 11:11:00 6 what he did.
 11:11:02 7 Q (By Mr. Mara) Then I'll make it
 11:11:03 8 official. What, if anything, did you do?
 11:11:06 9 A Mark asked me if I would attend their
 11:11:09 10 weekly sales meeting right after I told him about
 11:11:11 11 this occurring and talk to the sales group about
 11:11:18 12 SEC requirements and what constituted a sale.
 11:11:23 13 Q Okay. And at that time, how were
 11:11:25 14 sales recorded? When -- when was a sale a sale?
 11:11:29 15 A Sales were recorded when the clubs
 11:11:32 16 were shipped.
 11:11:33 17 Q Okay.
 11:11:34 18 A And a provision for returns was
 11:11:37 19 recorded at the same time.
 11:11:41 20 Q The regular -- was it a weekly sales
 11:11:44 21 meeting, did you say?
 11:11:45 22 A I believe it was weekly.
 11:11:46 23 Q A regular meeting.
 11:11:47 24 Were those recorded?

17 (Pages 62 to 65)

VERITEXT PA COURT REPORTING COMPANY

(215) 241-1000 (888) 777-6690 (610) 434-8588

b62b3ff5-1d3b-45f6-9642-e36a82a00e3c

Page 66

11:11:49 1 A Not that I know of.
 11:12:02 2 Q Do you have an opinion on Item E: It
 11:12:04 3 is a unanimous feeling that departmental
 11:12:04 4 management is weak, undirected, especially as
 11:12:06 5 practiced by Craig Parrish?
 11:12:07 6 Was that within your body of
 11:12:11 7 knowledge in July or August of 1998, or June?
 11:12:14 8 A No, I have no opinion on that.
 11:12:27 9 Q Okay. And in Item G: Given all the
 11:12:30 10 worries about low income, the average phone time
 11:12:32 11 is one hour 20 minutes.
 11:12:34 12 What is -- are you -- do you
 11:12:36 13 know what is meant by "average phone time"?
 11:12:40 14 A I believe that's the length of time
 11:12:42 15 that they are on the phone talking to customers,
 11:12:48 16 so that would represent apparently the average
 11:12:51 17 amount of time that they were on the phone during
 11:12:53 18 the day.
 11:12:54 19 Q Okay. During an eight-hour workday?
 11:12:56 20 A Right.
 11:12:56 21 Q I see. Okay. Again, turning to the
 11:13:11 22 second page, third full paragraph, it states:
 11:13:19 23 Apparently, we've made a lot of sales that have
 11:13:22 24 been falsely reported (as sales) and are little

Page 67

11:13:29 1 more than consignments
 11:13:31 2 Did you have any discussion
 11:13:32 3 with Barney at or around August 14th of 1998 about
 11:13:38 4 his suspicions about consignment sales?
 11:13:44 5 A No.
 11:13:44 6 Q Did you have discussions with anyone
 11:13:46 7 else in the company about the possibility of
 11:13:50 8 having sales falsely reported and little more than
 11:13:54 9 consignments?
 11:13:54 10 A I did talk to Mark Gonsalves about
 11:13:58 11 the right of return on clubs, and he indicated
 11:14:04 12 that there was no return right on a club that
 11:14:08 13 they -- the clubs that we were selling, and that
 11:14:12 14 wasn't part of my discussion when I talked about
 11:14:15 15 what constituted a sale with the salespeople.
 11:14:18 16 Q Right. So were you satisfied at that
 11:14:21 17 time that -- I'm sorry, strike that.
 11:14:26 18 So do you agree with Barney's
 11:14:29 19 statement in this memo that there appear to have
 11:14:32 20 been what amounted to consignment sales as falsely
 11:14:36 21 booked?
 11:14:37 22 A No, that's not my opinion.
 11:14:39 23 Q Okay. Did you conduct any
 11:14:41 24 independent research on this matter on your own?

Page 68

11:14:45 1 A The only thing that we did from an
 11:14:48 2 accounting standpoint is make sure that we had
 11:14:49 3 adequate reserves for returns. And again, we --
 11:14:54 4 we determined that based on historical results.
 11:15:00 5 Q Right.
 11:15:01 6 A And made estimates. Each time we
 11:15:04 7 recorded sales during the month, we would make an
 11:15:08 8 estimate of the returns. And it was without
 11:15:11 9 looking at whatever the cause of the return was.
 11:15:13 10 Q I see.
 11:15:14 11 A And the other thing that gave me a
 11:15:16 12 little bit of comfort is that all of the financial
 11:15:19 13 information that we present outside of the company
 11:15:22 14 is always presented at net sales, so that
 11:15:25 15 provision is netted against sales.
 11:15:27 16 Q I see. Okay. So to put this to bed,
 11:15:30 17 at no point did Barney or anyone else come in to
 11:15:33 18 you and say: We have a problem with consignment
 11:15:36 19 sales?
 11:15:36 20 A No.
 11:15:36 21 Q Or we have a problem with rights of
 11:15:38 22 return?
 11:15:39 23 A No.
 11:15:39 24 Q Did there ever come a time -- and I

Page 69

11:15:42 1 don't know this. I'm asking: Did there ever come
 11:15:46 2 a time -- strike that.
 11:15:47 3 Did you ever draft a return
 11:15:50 4 policy for Adams Golf?
 11:15:53 5 A There was revision, I believe, that
 11:15:58 6 was made to the invoices that stated that there
 11:16:04 7 was no return right, and I can't remember all the
 11:16:06 8 specifics of it, but I know that was one of the
 11:16:08 9 things that was specifically put in writing on the
 11:16:12 10 invoice.
 11:16:12 11 Q And do you know when that occurred?
 11:16:16 12 A I don't recall when that occurred.
 11:16:18 13 It was -- obviously it was in '98, but I don't
 11:16:21 14 recall when.
 11:16:21 15 Q Are you able to say whether it was
 11:16:24 16 pre-IPO or post-IPO?
 11:16:25 17 A It was post.
 11:16:26 18 Q And why was that change made?
 11:16:27 19 A In the golf industry, there are --
 11:16:30 20 there's generally clients that believe that they
 11:16:34 21 can return clubs, and it's commonplace in the golf
 11:16:39 22 industry. And not so much the large retailers,
 11:16:42 23 but the smaller shops that are on-course. They
 11:16:45 24 get done with the season, and they want to send

18 (Pages 66 to 69)

VERITEXT PA COURT REPORTING COMPANY

(215) 241-1000 (888) 777-6690 (610) 434-8588

b62b3ff5-1d3b-45f6-9642-e36a82a00e3c

Page 70	Page 72
<p>11:16:47 1 back any inventory that they have, and that's one</p> <p>11:16:51 2 reason why the reserve for returns was as high as</p> <p>11:16:55 3 it was</p> <p>11:16:56 4 Q I see. Okay. Were there other</p> <p>11:16:59 5 reasons why the reserve for return was as high as</p> <p>11:17:02 6 it was?</p> <p>11:17:03 7 MR. BESSETTE: In '98 you're</p> <p>11:17:06 8 talking about?</p> <p>11:17:06 9 MR. MARA: Yeah. Yeah.</p> <p>11:17:08 10 Again, in this.</p> <p>11:17:08 11 A I think there are probably a number</p> <p>11:17:10 12 of reasons, you know, just generally. Again, the</p> <p>11:17:14 13 seasonal, that last half of the year, the clubs,</p> <p>11:17:18 14 the Christmas season. There were -- I think some</p> <p>11:17:23 15 programs, towards the end of the year that we will</p> <p>11:17:26 16 to try to move clubs.</p> <p>11:17:28 17 There was also, if my memory</p> <p>11:17:30 18 is correct, a 90-day, no-questions-asked return</p> <p>11:17:34 19 policy, where people could go out and play with</p> <p>11:17:36 20 the club two or three months and decide: I don't</p> <p>11:17:39 21 like it, I'll return it.</p> <p>11:17:41 22 Q (By Mr. Mara) Right.</p> <p>11:17:41 23 A All of those factors, I think,</p> <p>11:17:44 24 contributed to that reserve.</p>	<p>11:19:05 1 as they could, and demand dropped for the -- we</p> <p>11:19:08 2 were sitting with a pretty large inventory of the</p> <p>11:19:13 3 original Tight Lies club.</p> <p>11:19:18 4 Q Okay. Thanks.</p> <p>11:19:22 5 Now, going toward the bottom</p> <p>11:19:25 6 of Page 2 of Exhibit 57 -- oh, I'm sorry.</p> <p>11:19:38 7 In the middle of the page,</p> <p>11:19:39 8 there's a paragraph that begins with: I'm in</p> <p>11:19:43 9 agreement with the splitting of the department,</p> <p>11:19:44 10 but only if it contains some deeper use of</p> <p>11:19:48 11 management tools.</p> <p>11:19:50 12 I suspect I may know the</p> <p>11:19:51 13 answer to this, but did you participate in a</p> <p>11:19:56 14 suggestion of splitting the department?</p> <p>11:20:04 15 A No.</p> <p>11:20:04 16 Q And did you participate in the rest</p> <p>11:20:06 17 of the paragraph where Barney says: If their</p> <p>11:20:10 18 sales numbers, which we should be able to get into</p> <p>11:20:13 19 detail, was that in any way -- did he write that</p> <p>11:20:17 20 after discussing the issue with you?</p> <p>11:20:23 21 A No.</p> <p>11:20:23 22 Q Then you get down to the rather</p> <p>11:20:24 23 strong language at the bottom of the page: I</p> <p>11:20:26 24 don't think I need to write anymore. The issue is</p>
Page 71	Page 73
<p>11:17:45 1 Q Did there come a time in 1998 when</p> <p>11:17:48 2 you had concerns about inventory levels?</p> <p>11:17:52 3 A I don't recall if it was '98. I</p> <p>11:17:57 4 guess as a CFO trying to control, you know, how we</p> <p>11:18:00 5 spend our money, I always had concerns about</p> <p>11:18:04 6 inventory levels and the number of turns and so</p> <p>11:18:06 7 forth in the inventory.</p> <p>11:18:07 8 Q Well, I mean -- again, I'm not trying</p> <p>11:18:09 9 to, you know, hide the ball. I think I recall</p> <p>11:18:13 10 reading something from the SEC or someone that</p> <p>11:18:15 11 said your inventory levels are X and you felt</p> <p>11:18:19 12 comfortable with the inventory levels in mid 1998.</p> <p>11:18:24 13 And I'm just asking, and I</p> <p>11:18:26 14 don't want to put words in your mouth and I don't</p> <p>11:18:29 15 want to mischaracterize things.</p> <p>11:18:31 16 I'm saying: Is there a time,</p> <p>11:18:37 17 the IPO, let's say, that inventory levels became a</p> <p>11:18:47 18 concern after the IPO to first quarter of '99?</p> <p>11:18:47 19 A I don't recall if -- if that was the</p> <p>11:18:47 20 case. I know at some point, and I don't recall if</p> <p>11:18:48 21 it was in the period of time you mentioned, the</p> <p>11:18:52 22 inventory of the original Tight Lies club was a</p> <p>11:18:58 23 concern because we had -- we had been growing so</p> <p>11:19:01 24 quickly that they built up the inventory as fast</p>	<p>11:20:28 1 squarely on the table, and I'll clarify what is</p> <p>11:20:30 2 making me sick. Are we living the big lie? Did</p> <p>11:20:33 3 we present road show numbers for '98/'99 that we</p> <p>11:20:36 4 have no idea we can attain?</p> <p>11:20:43 5 Prior witnesses have testified</p> <p>11:20:44 6 that Barney Adams was one to use strong or</p> <p>11:20:48 7 aggressive language. Did you question the</p> <p>11:20:52 8 contents of that paragraph with Barney Adams in</p> <p>11:20:55 9 August of 1998 or July of 1998?</p> <p>11:21:01 10 A No.</p> <p>11:21:01 11 Q Or June of 1998?</p> <p>11:21:02 12 A No.</p> <p>11:21:05 13 Q Okay. Did you have any concerns at</p> <p>11:21:06 14 or around August 14th of 1998 that perhaps some of</p> <p>11:21:11 15 the road show numbers that were offered were --</p> <p>11:21:17 16 you know, that you had no idea you could attain</p> <p>11:21:22 17 them?</p> <p>11:21:23 18 A First of all, I'm not sure that we</p> <p>11:21:24 19 offered any prospective numbers in the road show.</p> <p>11:21:27 20 Q Uh-huh.</p> <p>11:21:27 21 A I think that the analysts had</p> <p>11:21:29 22 presented numbers, so you know, I had some</p> <p>11:21:32 23 problems that we could make the numbers that they</p> <p>11:21:36 24 reported, but they were not our -- our numbers.</p>

19 (Pages 70 to 73)

VERITEXT PA COURT REPORTING COMPANY
(215) 241-1000 (888) 777-6690 (610) 434-8588

b62b3ff5-1d3b-45f6-9642-e36a82a00e3c

Page 82

11:30:47 1 the reason you asked for his departure from the
 11:30:50 2 company was performance-based? He just didn't
 11:30:54 3 have the body of knowledge he needed to carry out
 11:30:56 4 the role even as controller?
 11:30:58 5 MR. BESSETTE: Objection. I
 11:30:59 6 think that mixes prior -- misstates prior
 11:31:02 7 testimony. I think the second half was right, but
 11:31:06 8 "performance-based" implies something different.
 11:31:10 9 Q (By Mr. Mara) Did you ask Jim
 11:31:15 10 Farrell to leave the company because he wasn't a
 11:31:18 11 fair and competent controller?
 11:31:18 12 A No. The only reason I asked him to
 11:31:27 13 leave was because he didn't have a body of
 11:31:27 14 knowledge about SEC regulations.
 11:31:27 15 Q Was the parting amicable?
 11:31:32 16 A I don't know if I would characterize
 11:31:34 17 it as amicable. Nobody's happy when they're
 11:31:42 18 terminated.
 11:31:42 19 Q Was it hostile? I mean --
 11:31:44 20 A No, I didn't perceive it as being
 11:31:47 21 hostile
 11:31:48 22 Q Okay. Okay. All right. Okay
 11:32:15 23 This is Exhibit 79, previously
 11:32:20 24 marked as Exhibit 79, Adams 036839 through -841

Page 83

11:32:30 1 Again, my -- I'm sorry. My question is --
 11:32:34 2 MR. BESSETTE: Thank you.
 11:32:35 3 MR. MARA: All of these
 11:32:36 4 exhibits have become well-known to counsel.
 11:35:52 5 Q (By Mr. Mara) Have you had a chance
 11:35:53 6 to read the document?
 11:35:54 7 A Yes.
 11:35:56 8 Q Okay. Have you seen this document
 11:35:57 9 before this morning?
 11:36:04 10 A I believe I have.
 11:36:05 11 Q When would that have been?
 11:36:10 12 A I'm assuming it would have been
 11:36:12 13 around that date, but I can't say with any
 11:36:14 14 certainty
 11:36:15 15 Q Around September 25th?
 11:36:16 16 A September 25th.
 11:36:17 17 Q 1998?
 11:36:18 18 A Uh-huh.
 11:36:18 19 Q Did you have any role in the drafting
 11:36:20 20 of this document?
 11:36:22 21 A Other than providing some numbers,
 11:36:26 22 the per-share amounts, so forth, no, I didn't have
 11:36:30 23 any role
 11:36:31 24 Q And it appears from the document that

Page 84

11:36:33 1 Barney Adams is the author?
 11:36:36 2 A Yes
 11:36:45 3 Q Just looking at the first page, at
 11:36:48 4 the bottom of the first page, in Paragraph A
 11:36:55 5 there, the second sentence, Barney writes: When I
 11:36:59 6 came off the road show, I started spending much of
 11:37:02 7 my time in sales, not reviewing numbers, but
 11:37:05 8 working with the salespeople
 11:37:06 9 Do you know why Barney Adams,
 11:37:09 10 when he came off the road show, started working in
 11:37:11 11 the sales department?
 11:37:13 12 A No.
 11:37:15 13 Q Did you discuss -- were you aware at
 11:37:17 14 that time that he was devoting a lot of his
 11:37:21 15 energies to the sales department?
 11:37:21 16 A Yes.
 11:37:22 17 Q And did -- how were you aware of that
 11:37:26 18 at that time, just by watching?
 11:37:30 19 A Just because of what he was saying,
 11:37:32 20 that he was spending a great deal of time with
 11:37:35 21 them and trying to determine, you know, how he
 11:37:40 22 could be better organized and so forth.
 11:37:44 23 Q Was there an event or a happening
 11:37:46 24 that occurred that caused Barney Adams to want to

Page 85

11:37:50 1 evaluate the inside staff when he came off the
 11:37:55 2 road show?
 11:37:56 3 A Not that I'm aware of.
 11:37:59 4 Q Did you have any discussions with,
 11:38:02 5 I'll say the underwriters, about the inside sales
 11:38:05 6 staff during the road show?
 11:38:07 7 A No.
 11:38:09 8 Q Do you know if Barney did?
 11:38:10 9 A I'm not aware of that.
 11:38:11 10 Q I'm just curious why he came off the
 11:38:15 11 road show and went -- by reading this, I'm
 11:38:18 12 characterizing it that he went right over to
 11:38:21 13 inside sales and started working there.
 11:38:22 14 A I can't --
 11:38:24 15 Q No idea what his motive was?
 11:38:26 16 A I can't --
 11:38:28 17 Q The -- the next sentence says:
 11:38:30 18 Serious problems were found and changes were made
 11:38:34 19 (more are coming).
 11:38:38 20 Do you know what the serious
 11:38:39 21 problems were that were found at that time?
 11:38:45 22 A Which paragraph are you talking
 11:38:46 23 about?
 11:38:47 24 Q Right at the bottom of Page 1,

22 (Pages 82 to 85)

VERITEXT PA COURT REPORTING COMPANY
 (215) 241-1000 (888) 777-6690 (610) 434-8588

b62b3ff5-1d3b-45f6-9642-e36a82a00e3c

Page 86	Page 88
<p>11:38:48 1 Paragraph A.</p> <p>11:38:50 2 A All right</p> <p>11:38:50 3 Q The last sentence: Serious problems</p> <p>11:38:53 4 were found and changes were made.</p> <p>11:38:58 5 A No, I don't know what serious</p> <p>11:39:00 6 problems he's referring to.</p> <p>11:39:07 7 Q And he's -- okay.</p> <p>11:39:09 8 And is the reason you don't</p> <p>11:39:10 9 know this is because this was divorced from your</p> <p>11:39:14 10 area? Is that safe to say? You were CFO?</p> <p>11:39:18 11 A As far as the sales, yes. The sales</p> <p>11:39:22 12 area was not part of my responsibility and --</p> <p>11:39:26 13 Q So in other words, there was no</p> <p>11:39:28 14 reason for you to know this, other than perhaps</p> <p>11:39:33 15 informally?</p> <p>11:39:33 16 A That's true</p> <p>11:39:34 17 Q Did you have any concerns personally</p> <p>11:39:37 18 from your office as CFO about the inside sales</p> <p>11:39:43 19 department post road show?</p> <p>11:39:48 20 A No. I had -- I had no problems</p> <p>11:39:50 21 because what I was hearing were things that were</p> <p>11:39:53 22 very insignificant to the financial statements, so</p> <p>11:39:56 23 it did not cause me concern.</p> <p>11:39:58 24 Q Okay. And what were you hearing?</p>	<p>11:41:12 1 what the detailed analysis entailed?</p> <p>11:41:12 2 A I don't know what he's referring to.</p> <p>11:41:12 3 Q Did you ever prepare any report or</p> <p>11:41:13 4 memoranda to Barney --</p> <p>11:41:15 5 A Not that I --</p> <p>11:41:16 6 Q -- as part of a detailed analysis?</p> <p>11:41:19 7 A Not that I can remember.</p> <p>11:41:24 8 Q Do you recall performing any analysis</p> <p>11:41:26 9 of the financial side at Adams Golf prior to</p> <p>11:41:31 10 September 25th, 1998?</p> <p>11:41:40 11 A No. Other than my normal</p> <p>11:41:42 12 responsibilities of reviewing the financial</p> <p>11:41:45 13 statements, no, I didn't perform any detailed</p> <p>11:41:48 14 analysis.</p> <p>11:41:48 15 Q If you -- the next sentence in that</p> <p>11:41:52 16 clause is: Jim Farrell has left the company.</p> <p>11:41:55 17 A Yes.</p> <p>11:41:55 18 Q Did -- do you have reason to believe</p> <p>11:42:00 19 that a -- well, here's the -- the silly question,</p> <p>11:42:03 20 I suppose: You have no reason to think Barney is</p> <p>11:42:06 21 lying when he's saying that Darl conducted a</p> <p>11:42:09 22 detailed analysis on the financial side?</p> <p>11:42:14 23 A No. I think that's just, you know,</p> <p>11:42:17 24 terminology that he's using for performing the</p>
Page 87	Page 89
<p>11:39:59 1 A The factors that we discussed before</p> <p>11:40:06 2 regarding an individual on the inside sales</p> <p>11:40:10 3 group --</p> <p>11:40:10 4 Q Okay.</p> <p>11:40:10 5 A -- that had double-shipped items.</p> <p>11:40:13 6 Q Right. Anything else other than that</p> <p>11:40:15 7 alleged double shipping?</p> <p>11:40:16 8 A The only thing that came up other</p> <p>11:40:19 9 than that was the on-course shops returning clubs</p> <p>11:40:25 10 at the end of the season.</p> <p>11:40:34 11 Q Okay. So Paragraph A, Item 2 there</p> <p>11:40:36 12 at the bottom of Page 1: The inside sales</p> <p>11:40:39 13 organization has been changed</p> <p>11:40:41 14 A (Witness nods.)</p> <p>11:40:42 15 Q Do you know -- so do you know how it</p> <p>11:40:43 16 was changed?</p> <p>11:40:47 17 A I do not. I'd only be guessing --</p> <p>11:40:49 18 Q Okay.</p> <p>11:40:49 19 A -- if I tried to speculate.</p> <p>11:40:52 20 Q The next sentence, Item 3: Darl</p> <p>11:40:55 21 conducted a detailed analysis on the financial</p> <p>11:41:03 22 side.</p> <p>11:41:03 23 What -- do you recall</p> <p>11:41:03 24 conducting that detailed analysis? Do you know</p>	<p>11:42:21 1 normal CFO responsibilities.</p> <p>11:42:24 2 Q Okay. When you performed the normal</p> <p>11:42:25 3 CFO responsibilities, did anything at that time --</p> <p>11:42:30 4 did you discover anything about crunching the</p> <p>11:42:33 5 numbers, in laymen's terms, that caused you</p> <p>11:42:36 6 concern about Jim Farrell?</p> <p>11:42:38 7 A No.</p> <p>11:42:38 8 Q Okay. So it was only his lack of</p> <p>11:42:40 9 knowledge --</p> <p>11:42:40 10 A SEC requirements.</p> <p>11:42:42 11 Q -- of SEC requirements? Okay. All</p> <p>11:42:45 12 right.</p> <p>11:42:55 13 So to the best of your</p> <p>11:42:56 14 knowledge, there is no memorandum out there or</p> <p>11:42:59 15 report out there saying: This is Darl Hatfield's</p> <p>11:43:02 16 analysis of the -- of the financial side?</p> <p>11:43:05 17 A No. I feel very certain --</p> <p>11:43:07 18 Q Okay.</p> <p>11:43:07 19 A -- that there is not a report that</p> <p>11:43:10 20 he's describing right here. That doesn't mean in</p> <p>11:43:15 21 his mind that he didn't think that I performed</p> <p>11:43:18 22 that type of analysis, but just through</p> <p>11:43:21 23 discussions. They're just the normal CFO</p> <p>11:43:24 24 responsibilities.</p>

23 (Pages 86 to 89)

VERITEXT PA COURT REPORTING COMPANY
(215) 241-1000 (888) 777-6690 (610) 434-8588

b62b3ff5-1d3b-45f6-9642-e36a82a00e3c

Page 102	Page 104
<p>12:00:48 1 of January of 1999? Was that within the scope of</p> <p>12:00:51 2 your knowledge at that time?</p> <p>12:00:52 3 A It may have been, but I don't recall</p> <p>12:00:54 4 what the locations were.</p> <p>12:00:57 5 Q Retailer margins, in general, those</p> <p>12:01:00 6 would have been a concern to you as CFO?</p> <p>12:01:08 7 A Yes.</p> <p>12:01:08 8 Q So now you disagree that the company</p> <p>12:01:10 9 was slow to react to Costco or other</p> <p>12:01:16 10 unauthorized --</p> <p>12:01:16 11 A Yes, I do.</p> <p>12:01:17 12 Q And why do you disagree?</p> <p>12:01:19 13 A Because from a financial standpoint,</p> <p>12:01:21 14 it did not hurt our financial performance until we</p> <p>12:01:25 15 got into that fourth quarter. We immediately took</p> <p>12:01:28 16 steps to try and find out who was diverting the</p> <p>12:01:32 17 clubs.</p> <p>12:01:32 18 Q Okay So in your opinion, then,</p> <p>12:01:34 19 Adams acted very quickly once it had the</p> <p>12:01:38 20 information in that quarter to -- to try and deal</p> <p>12:01:42 21 with the problem?</p> <p>12:01:43 22 A Well, I think once it became more of</p> <p>12:01:48 23 a financial problem to us, then yes, I think we</p> <p>12:01:52 24 acted very quickly.</p>	<p>12:03:22 1 considered as part of that new pricing policy?</p> <p>12:03:27 2 A Well, this would just be my own</p> <p>12:03:29 3 opinion --</p> <p>12:03:29 4 Q Sure.</p> <p>12:03:30 5 A -- but I think the Costco portion of</p> <p>12:03:31 6 it was a very, very small portion, because</p> <p>12:03:35 7 there's -- if I remember the inventories</p> <p>12:03:38 8 correctly, there were, you know, a few thousand</p> <p>12:03:40 9 clubs that were in the Costco stores. I think the</p> <p>12:03:45 10 bigger aspect of it was just the weakness in</p> <p>12:03:48 11 demand for clubs in general.</p> <p>12:03:52 12 Q Do you recall, as part of the</p> <p>12:03:55 13 discussions and part of the formulation in this</p> <p>12:03:57 14 new pricing policy, discussing Costco with Chip</p> <p>12:04:00 15 Brewer?</p> <p>12:04:01 16 A I don't recall specifically talking</p> <p>12:04:02 17 about Costco.</p> <p>12:04:06 18 Q I guess the reverse side of that coin</p> <p>12:04:08 19 is: Do you have reason to believe you did not</p> <p>12:04:10 20 discuss Cos -- do you have reason to believe that</p> <p>12:04:13 21 you affirmatively were not concerned?</p> <p>12:04:16 22 MR. BESSETTE: I'm sorry. The</p> <p>12:04:17 23 question is vague.</p> <p>12:04:23 24 Q (By Mr. Mara) I guess it's -- I</p>
Page 103	Page 105
<p>12:02:02 1 Q And this -- oh, no Okay. Okay.</p> <p>12:02:14 2 Now, I believe -- based on</p> <p>12:02:20 3 earlier testimony, I think you may be talking</p> <p>12:02:22 4 about this sentence: Secondly, effective with</p> <p>12:02:24 5 this letter, we are introducing dramatic new sales</p> <p>12:02:25 6 policies and programs designed to enhance and</p> <p>12:02:27 7 protect your margins.</p> <p>12:02:33 8 Is that what you were</p> <p>12:02:33 9 referring to when Chip Brewer discussed the new</p> <p>12:02:33 10 sales pricing policy with you?</p> <p>12:02:37 11 A Yes.</p> <p>12:02:37 12 Q And what was the motive behind the</p> <p>12:02:41 13 new pricing policy?</p> <p>12:02:43 14 A Obviously the motive is to sell more</p> <p>12:02:46 15 clubs.</p> <p>12:02:46 16 Q Yeah. Right.</p> <p>12:02:47 17 A And I think at that period of time,</p> <p>12:02:50 18 there still was some pretty significant</p> <p>12:02:53 19 inventories out there. In order to move product</p> <p>12:02:56 20 to the end user, the retailer was having to reduce</p> <p>12:03:00 21 the -- the sales price.</p> <p>12:03:09 22 Q Was there any discussion about --</p> <p>12:03:11 23 between yourself and Chip Brewer in establishing</p> <p>12:03:19 24 this new pricing policy? Was the impact of Costco</p>	<p>12:04:24 1 guess my prior question was: Did you -- do you</p> <p>12:04:26 2 have reason to believe you did discuss Costco. I</p> <p>12:04:30 3 guess I'm asking, though, the other side of that</p> <p>12:04:32 4 coin is: Do you have reason to believe you did</p> <p>12:04:34 5 not discuss Costco?</p> <p>12:04:36 6 A I don't think we got into any type of</p> <p>12:04:39 7 detailed discussion about Costco. I think we</p> <p>12:04:42 8 talked only about the pricing policy and how that</p> <p>12:04:44 9 would affect our financial statements going --</p> <p>12:04:47 10 going forward. It's more from a financial</p> <p>12:04:50 11 standpoint as opposed to what are the reasons why</p> <p>12:04:53 12 we need to do this?</p> <p>12:05:01 13 Q Much is made in -- in gray</p> <p>12:05:04 14 marketing -- about gray marketing, and in the --</p> <p>12:05:08 15 in the discovery provided in this case about sort</p> <p>12:05:12 16 of the psychic damage to the product, to its</p> <p>12:05:18 17 image, that you do not want a prestige product in</p> <p>12:05:22 18 a -- a box warehouse store because it has a</p> <p>12:05:26 19 negative impact on the -- on the image of the</p> <p>12:05:30 20 brand.</p> <p>12:05:31 21 With that long introduction, I</p> <p>12:05:34 22 trust that that was not a concern of yours as CFO?</p> <p>12:05:37 23 A No. My --</p> <p>12:05:39 24 Q Okay.</p>

27 (Pages 102 to 105)

VERITEXT PA COURT REPORTING COMPANY

(215) 241-1000 (888) 777-6690 (610) 434-8588

b62b3ff5-1d3b-45f6-9642-e36a82a00e3c

Page 106	Page 108
<p>12:05:39 1 A My concern was just basically with 12:05:41 2 the numbers. 12:05:49 3 Q Okay Moving along -- oh, you know 12:05:55 4 what. I'm sorry. Returning back to Exhibit 57, 12:05:58 5 which was that August 14th, 1998 memo that I asked 12:06:01 6 you several questions about, Barney's memo to Mark 12:06:05 7 Gonsalves and Ric Jarrett. 12:06:07 8 A Yes. 12:06:07 9 Q Just very quickly, and I know you've 12:06:09 10 testified to this. We talked about the paragraph 12:06:12 11 that mentions consignment sales, or you know, 12:06:14 12 suspected, and you said that you didn't believe it 12:06:16 13 was a problem or existed. 12:06:18 14 The second sentence in that 12:06:21 15 paragraph says: Check July returns and tell me 12:06:23 16 what they'll be during the rest of the year. 12:06:26 17 Did you, as -- in your 12:06:29 18 functions as CFO, you evaluate monthly returns, 12:06:33 19 correct? 12:06:34 20 A Yes. 12:06:34 21 Q Okay Did you -- were there 12:06:36 22 anything -- was there anything about July 1998 12:06:40 23 return route levels that aroused your interest or 12:06:43 24 you believed was out of the ordinary?</p>	<p>12:07:59 1 able to recall sitting here this morning, did not 12:08:02 2 cause you any particular concern? 12:08:06 3 A No. 12:08:07 4 Q Now, that's not a fair question. 12:08:09 5 There was nothing about 12:08:10 6 returns in 1999 that you thought was out of the 12:08:16 7 ordinary? 12:08:16 8 A I think that's a fair statement. 12:08:32 9 Q Okay. This document has already been 12:08:32 10 marked Exhibit 61. I think it was also marked -- 12:08:43 11 oh, no. No. 12:08:45 12 MR. MARA: For the record. 12:08:46 13 it's MCK 01486, and it's an Adams press release 12:08:55 14 from March 18, 1999. 12:09:15 15 Off the record. 12:09:15 16 (A recess was taken from 12:23:32 17 12:09 to 12:23) 12:23:40 18 MR. MARA: Back on the record. 12:23:42 19 Q (By Mr. Mara) Just prior to the 12:23:43 20 break, I handed you what has been marked as 12:23:45 21 Exhibit 61. Have you had a chance to read through 12:23:49 22 it? 12:23:51 23 A Yes. 12:23:51 24 Q Again, have you seen this document</p>
Page 107	Page 109
<p>12:06:47 1 A I don't recall anything about that 12:06:50 2 particular month. I know we looked at them every 12:06:53 3 month, and we looked at our adjusted return based 12:06:58 4 on actual terms that took place some period of 12:07:01 5 time prior to that particular month, so -- 12:07:03 6 Q Was there a month in 1998 that the 12:07:07 7 return level caused you concern or you thought was 12:07:10 8 out of the ordinary? 12:07:14 9 A I can't say that without going back 12:07:17 10 and looking at the work papers that were 12:07:20 11 pertaining to that. 12:07:20 12 Q Okay. But sitting here this morning, 12:07:23 13 you don't recall any particular -- 12:07:26 14 A I don't recall a particular month. I 12:07:28 15 do recall the returns for the year were -- I guess 12:07:34 16 I'd characterize it as significant, but also 12:07:37 17 relative to the number of clubs that were sold. 12:07:39 18 If you look at prior years and the year after 12:07:42 19 that, those reserves stayed kind of at the same 12:07:48 20 level. 12:07:48 21 Q They were proportionate? 12:07:50 22 A They were proportionate to sales. 12:07:53 23 Q Okay. So then, is it fair to say 12:07:55 24 that -- that returns in 1998, as far as you're</p>	<p>12:23:53 1 before this afternoon? 12:23:56 2 A I don't recall this document. 12:23:59 3 Q Okay. Just very simply, do you know 12:24:01 4 who was the source of the gray market supply? 12:24:05 5 A No. 12:24:05 6 Q Do you recall having any discussions 12:24:10 7 in or about March of 1999 about the source of the 12:24:14 8 gray market supply? 12:24:15 9 A I don't recall that. 12:24:18 10 Q Do you recall having any discussions 12:24:22 11 with Barney Adams about any of the content of this 12:24:25 12 press release at that time at or about March of 12:24:31 13 1999? 12:24:31 14 A No, I don't think that I had any 12:24:32 15 discussion with him about this press release. 12:24:36 16 Q Do you recall whether or not any 12:24:41 17 retail or distributor accounts were terminated at 12:24:45 18 or about March 18th of 1999? 12:24:49 19 A No. I don't know who he's referring 12:24:51 20 to in this press release. 12:25:09 21 Q This press release was not the 12:25:12 22 subject of water cooler conversation around the 12:25:14 23 company at the time? 12:25:15 24 A Not that I recall.</p>

28 (Pages 106 to 109)

VERITEXT PA COURT REPORTING COMPANY
(215) 241-1000 (888) 777-6690 (610) 434-8588

b62b3ff5-1d3b-45f6-9642-e36a82a00e3c

JAMES

1 IN THE UNITED STATES DISTRICT COURT
2 FOR THE DISTRICT OF DELAWARE

3 - - -
4 IN RE: ADAMS GOLF, INC. :
5 SECURITIES LITIGATION :
6

X

7
8 ORAL DEPOSITION

9 OF

10 CHRISTOPHER M. JAMES

11 Friday, August 11, 2006
12

13 - - -
14 Oral deposition of CHRISTOPHER M.

15 JAMES, held at the offices of AKIN GUMP
16 STRAUSS HAUER & FELD, LLP, 590 Madison Avenue,
17 New York, New York, commencing at 8:30 a.m.,
18 reported by Pamela Harrison, RMR, CRR, CSR and
19 Notary Public.
20
21
22

23 RSA/VERITEXT COURT REPORTING COMPANY
1845 Walnut Street, 15th Floor
Philadelphia, PA 19103
(215) 241-1000 (888) 777-6690

Page 2

1 APPEARANCES:
2
3 TODD S. COLLINS, ESQUIRE
and ELIZABETH W. FOX, ESQUIRE
4 BERGER & MONTAGUE, P.C.
1622 Locust Street
5 Philadelphia, Pennsylvania 19103-6305
215.875.3000
6 tcollins@bm.net
efox@bm.net
7 For the Plaintiff
8
9 MICHELLE A. REED, ESQUIRE
10 AKIN GUMP STRAUSS HAUER & FELD, LLP
300 West 6th Street
11 Suite 2100
Austin, Texas 78701-3911
12 512.499.6200
mreed@akingump.com
13 For the Adams Golf Defendants
14
15 THOEDORE J. McEVoy, ESQUIRE
16 SIMPSON THACHER & BARTLETT, LLP
425 Lexington Avenue
17 New York, New York 10017-3954
212-455-2831
18 tmcevoy@stblaw.com
rkane@stblaw.com
19 For the Underwriter Defendants
20
21
22
23
24

Page 4

DEPOSITION SUPPORT INDEX

Direction to Witness Not to Answer:

Page Line
(NONE)

Request for Production of Documents:

Page Line
103/6
121/4

Stipulations:

Page Line
(NONE)

Questions Marked:

Page Line
(NONE)

Page 3

1 EXAMINATION INDEX
2
3 CHRISTOPHER M. JAMES
4 BY MR. COLLINS 5
5
6
7 EXHIBIT INDEX
8
9 PAGE
10 ** 335 Rebuttal Expert Report
of R. Alan **87
11 Miller with attachments
12 336 Expert Report of Christopher M. James 5
with attachments
13 337 Rebuttal Expert Report of Christopher 5
M. James
14 338 E-mail from Terpsma to James, 8/3/06; 5
e-mail from Phillips to Goodman
8/2/06, Bates stamped CMJ 0562
15 339 Graph analysis, Bates stamped CMJ 0560 5
16 340 Analysis of Peer Performance Around 5
July Purchase Order Dates, Bates
stamped CMJ 0561
17 341 Adams Golf, Inc., Integrated 5
Chronology, Bates stamped CMJ 0563
18
19 342 Memorandum to Collins from Reed dated 72
7/20/06 with attachments
20
21
22
23
24

Page 5

1 (Whereupon, documents were 08:51:07a
2 premarked, for identification purposes, 08:51:07a
3 as Exhibits 336 through 341) 08:51:07a
4 THE COURT REPORTER: Are there 09:02:05a
5 any stipulations today? 09:02:05a
6 MS. REED: No, there are not. 09:02:08a
7 THE COURT REPORTER: Are you 09:02:19a
8 having him read and sign? 09:02:19a
9 MS. REED: Yes. Sorry. 09:02:22a
10 --- 09:02:23a
11 CHRISTOPHER M. JAMES, after 09:02:23a
12 having been duly affirmed, was examined 09:02:23a
13 and testified as follows: 09:02:23a
14 --- 09:02:34a
15 EXAMINATION 09:02:34a
16 --- 09:02:34a
17 BY MR. COLLINS: 09:02:34a
18 Q Dr. James, thank you very much 09:02:34a
19 for coming 09:02:36a
20 A My pleasure 09:02:38a
21 Q Michelle had sent me an e-mail 09:02:41a
22 last night, which I couldn't open, and when I 09:02:43a
23 walked in this morning, I see she was good 09:02:46a
24 enough to give an extra copy of what she 09:02:49a

2 (Pages 2 to 5)

CHRISTOPHER M. JAMES

Page 110		Page 112	
1	think are in Exhibit 4, I believe I did the same 12:00:29p	1	NYCE index. 12:04:10p
2	thing with respect to -- I simply -- my 12:00:40p	2	Q. In your last answer you referred 12:04:11p
3	recollection -- here's what I can recall 12:00:47p	3	to growth stocks. Did you consider Adams to be 12:04:14p
4	I did one-factor and two-factor 12:00:50p	4	a growth stock? 12:04:16p
5	models to see if the explanatory power was any 12:00:53p	5	A. Yes, I think it was generally 12:04:17p
6	different or the R-squareds were any 12:00:57p	6	considered to be a type of stock that would be 12:04:19p
7	different, that's what I recall And I recall 12:00:59p	7	considered to be a growth stock. 12:04:23p
8	concluding based on that analysis that there 12:01:03p	8	Q. Did you consider it to be a tech 12:04:25p
9	weren't any difference, that my results would 12:01:05p	9	stock, a high tech stock? 12:04:27p
10	not change if I substituted the S&P index for 12:01:07p	10	A. No, I think I considered it to 12:04:29p
11	the NASDAQ, for example. 12:01:15p	11	be a growth stock. 12:04:30p
12	Q. In constructing an index, one of 12:01:20p	12	Q. Now, at the time you used 12:04:33p
13	the things a researcher does is try to find a 12:01:23p	13	NASDAQ, did you consider any other index besides 12:04:35p
14	good fit; correct? 12:01:26p	14	this modified Bloomberg golf? 12:04:37p
15	A. That -- that depends on the 12:01:28p	15	A. No 12:04:41p
16	purpose. I mean, typically it is not -- if 12:01:35p	16	Q. Did you -- you didn't consider 12:04:42p
17	you're simply looking for a good fit without any 12:01:46p	17	the Dow Jones? 12:04:46p
18	a priori reason for including a variable in a 12:01:52p	18	A. Industrial? 12:04:47p
19	regression, then that is thought of as data 12:01:59p	19	Q. Yes. 12:04:47p
20	mining and is not generally accepted as a 12:02:05p	20	A. No 12:04:48p
21	scientific inquiry. 12:02:13p	21	Q. You didn't consider S&P 500 or 12:04:49p
22	One begins with a hypothesis 12:02:16p	22	S&P small cap? 12:04:52p
23	about what relationship should be expected and 12:02:18p	23	A. I didn't consider S&P 500, I 12:04:54p
24	then empirically tests that relationship and 12:02:24p	24	didn't consider the Dow Jones, I didn't consider 12:04:58p
Page 111		Page 113	
1	set up the experiment in a way that can be 12:02:29p	1	the S&P small cap. 12:05:00p
2	replicated by a third party utilizing the 12:02:32p	2	Q. Okay. Apart from NASDAQ, 12:05:01p
3	techniques that you have described 12:02:35p	3	modified Bloomberg golf, and apart from the two 12:05:07p
4	Q. Okay. Why did you use NASDAQ? 12:02:38p	4	of those together, did you do runs or 12:05:12p
5	A. Well, because Adams was trading 12:02:42p	5	regressions on using any other indices? 12:05:18p
6	on the OTC or NASDAQ 12:02:52p	6	A. Other than the -- no, other than 12:05:21p
7	Q. Any other reason? 12:03:04p	7	the analysis that we were just talking about a 12:05:26p
8	A. It's my practice if you want to 12:03:05p	8	moment ago. 12:05:29p
9	look at general market movements, the index you 12:03:07p	9	Q. And by that analysis you are 12:05:30p
10	use where you would expect to see a relationship 12:03:13p	10	referring to the analysis done after 12:05:32p
11	would be companies that are trading on a similar 12:03:18p	11	Mr. Miller's rebuttal report -- 12:05:37p
12	exchange 12:03:24p	12	A. Yes 12:05:39p
13	Q. And it's true that the NASDAQ, 12:03:24p	13	Q. -- using the Miller peer group, 12:05:40p
14	as Mr. Miller pointed out in his rebuttal, it's 12:03:27p	14	or what you call that, and the S&P small cap? 12:05:43p
15	true that at the time the NASDAQ was dominated 12:03:30p	15	A. Yes. 12:05:49p
16	by high tech companies; correct? 12:03:33p	16	Q. Okay. Let's talk about event 12:05:50p
17	A. I don't know what he means by 12:03:35p	17	windows. What is an event window, please? 12:06:06p
18	"dominated." Certainly the NASDAQ is more 12:03:37p	18	A. I'm sorry? 12:06:10p
19	heavily weighted towards growth companies at 12:03:41p	19	Q. What is an event window? 12:06:11p
20	this particular point in time, which was before 12:03:47p	20	A. An event window and is commonly 12:06:19p
21	the '99 run-up in tech stocks. It was -- I 12:03:49p	21	referred -- the most common definition of an 12:06:26p
22	mean, certainly the NASDAQ is more heavily 12:03:58p	22	event window is the time period over which 12:06:30p
23	weighted towards tech and growth stocks than, 12:04:00p	23	someone undertaking an event study investigates 12:06:38p
24	say, the Dow Jones Industrial Average or the 12:04:02p	24	the impact of information on stock prices or 12:06:42p

CHRISTOPHER M. JAMES

Page 114

1 stock returns. 12:06:49p
 2 Q. Now, you used an event window or 12:06:50p
 3 event windows in this work; correct? 12:06:53p
 4 A. Yes 12:06:59p
 5 Q. And the event window you used, 12:07:00p
 6 for all aspects of your work here, was one day? 12:07:01p
 7 A. No. 12:07:08p
 8 Q. Okay. You used, at least in 12:07:09p
 9 some parts of your work, a one-day event window; 12:07:14p
 10 is that -- 12:07:18p
 11 A. That is correct. 12:07:18p
 12 Q. Okay. In what part of your work 12:07:19p
 13 did you use a one-day event window? 12:07:24p
 14 A. As is indicated in my report, 12:07:26p
 15 when I was able to identify when a piece of 12:07:36p
 16 information was either published or became 12:07:42p
 17 available to market participants, I utilized -- 12:07:46p
 18 I used the day on which that information was 12:07:53p
 19 first available during trading hours 12:07:55p
 20 Q. Okay. 12:07:58p
 21 A. Now, on -- the one I remember in 12:07:59p
 22 particular was the April -- I'm sorry, the April 12:08:07p
 23 -- the August 28th Lehman Brothers report. It 12:08:09p
 24 has a date on it, but not a time stamp, so then 12:08:15p

Page 115

1 the question becomes is it a -- was it available 12:08:19p
 2 to market participants during trading hours. 12:08:26p
 3 And, as I indicate in my report, I look at both 12:08:33p
 4 the 28th and the 31st and see whether either one 12:08:37p
 5 of those days is statistically significant. 12:08:41p
 6 Now -- 12:08:43p
 7 Q. Can I stop you? Forgive me. 12:08:46p
 8 With regard to that, when you 12:08:48p
 9 did that work regarding the Lehman report and 12:08:49p
 10 you looked at the 28th and you looked at the 12:08:52p
 11 31st, you looked at each on a one-day event 12:08:54p
 12 window basis; correct? 12:08:57p
 13 A. And I also calculated the 12:08:59p
 14 statistical significance on a two-day basis. 12:09:04p
 15 Q. Okay. With respect to Lehman, 12:09:07p
 16 that Lehman August 28th report? 12:09:12p
 17 A. Yes 12:09:14p
 18 Q. All right. And why with regard 12:09:20p
 19 to the Lehman report did you use a two-day event 12:09:23p
 20 window? 12:09:26p
 21 A. Well, I think it would be a mis 12:09:28p
 22 -- it would be a mischaracterization to say that 12:09:31p
 23 -- I investigated a two-day event window to 12:09:37p
 24 determine whether the conclusions that I was 12:09:40p

Page 116

1 reaching regarding the materiality of that 12:09:41p
 2 information would be changed if I used a broader 12:09:44p
 3 window than one day. 12:09:51p
 4 Q. Okay. How did you investigate? 12:09:56p
 5 A. In the manner that I just 12:09:59p
 6 described, that I looked at each day 12:10:00p
 7 individually in the combination of those two 12:10:02p
 8 days. 12:10:06p
 9 In addition, even though the 12:10:06p
 10 Lehman report has no time stamp on it, I 12:10:10p
 11 believe, both in reading Mr. Lantier's 12:10:14p
 12 deposition, and it's my understanding, having 12:10:18p
 13 worked with buy and sell side analysts, that 12:10:21p
 14 typically the written report will be disclosed 12:10:25p
 15 to market participants and the content would 12:10:33p
 16 be disclosed to the market participants in the 12:10:36p
 17 day -- on the day on which the report is 12:10:39p
 18 dated, during trading hours, or before the 12:10:42p
 19 start of trading on the day that it is dated. 12:10:51p
 20 Consistent with that, I also 12:10:51p
 21 looked at what the closing price was referred 12:10:52p
 22 to in the August 28th report for Adams Golf to 12:10:55p
 23 determine whether the closing price pertained 12:11:01p
 24 to the 28th or the day before, and it 12:11:04p

Page 117

1 pertained to the day before, which is 12:11:10p
 2 consistent with the report being published on 12:11:13p
 3 the 28th. 12:11:16p
 4 Q. I asked you a question a moment 12:11:19p
 5 ago about what you did to investigate a two-day 12:11:22p
 6 event window and you said you already answered 12:11:26p
 7 that. 12:11:28p
 8 A. Yes. 12:11:29p
 9 Q. Tell me, again, what you did to 12:11:29p
 10 investigate a two-day event window consisting of 12:11:32p
 11 the 28th and the 31st. Did you run regressions 12:11:37p
 12 on it? 12:11:41p
 13 A. I aggregated the abnormal 12:11:44p
 14 returns or the residual returns 12:11:46p
 15 Q. Okay. 12:11:49p
 16 A. And then used -- and then tested 12:11:51p
 17 whether they were significant based upon a 12:11:53p
 18 standard error that was estimated to be 12:11:57p
 19 consistent with a two-day return. So this -- I 12:12:01p
 20 have used and others use in published work an 12:12:07p
 21 estimate of the two-day standard error is simply 12:12:12p
 22 the square root of two times the daily standard 12:12:16p
 23 error. 12:12:19p
 24 Q. When you did so, what did you 12:12:27p

CHRISTOPHER M. JAMES

Page 118

1 come up with; a lack of statistical significance 12:12:29p
 2 on the two-day basis? 12:12:32p
 3 A. Yes. 12:12:33p
 4 Q. That work with regard to the 12:12:34p
 5 two-day event window analysis or investigation, 12:12:37p
 6 does that appear somewhere in your report or 12:12:42p
 7 your rebuttal report, with respect to the Lehman 12:12:44p
 8 August 28th report? 12:12:46p
 9 A. I don't -- as I sit here, I 12:12:57p
 10 don't recall. I believe in the report I discuss 12:13:00p
 11 both the return on the 28th and the 31st. 12:13:04p
 12 Q. Can you retrieve, please, the 12:13:20p
 13 investigation you did of the two-day event 12:13:23p
 14 window with respect to the Lehman August 28 12:13:26p
 15 report? 12:13:31p
 16 A. I don't know whether I still 12:13:41p
 17 have it. I think that you could get very close 12:13:42p
 18 to that result by -- actually, by going to my 12:13:50p
 19 report. 12:14:03p
 20 I believe on Paragraph 59, as I 12:14:28p
 21 outline, the residual return was less than one 12:14:43p
 22 percent on the 28th and the residual return on 12:14:53p
 23 the 31st was minus 5.2, so the cumulative 12:14:59p
 24 residual would be somewhere around 6.2. The 12:15:05p

Page 119

1 one-day -- so that -- that's -- that would be 12:15:12p
 2 the two-day abnormal return, would be 6.2 12:15:18p
 3 percent. 12:15:22p
 4 Since neither return is 12:15:23p
 5 statistically significant on a one-day basis, 12:15:25p
 6 combining the two, given that the standard 12:15:29p
 7 error for a two-day return is bigger than the 12:15:31p
 8 one-day return, is not going to result in the 12:15:37p
 9 6.2 percent return or something less than 6.2 12:15:39p
 10 percent return to be statistically 12:15:47p
 11 significant. 12:15:49p
 12 Q. Okay. Tell me about the 12:15:50p
 13 standard error with regard to how the standard 12:15:51p
 14 error changes depending upon the event -- the 12:15:54p
 15 length of the event window. Would you describe 12:15:57p
 16 to me how that works. 12:16:01p
 17 A. Generally the longer the event 12:16:03p
 18 window, the larger the standard error because 12:16:06p
 19 the volatility of two-day returns is generally 12:16:18p
 20 higher than one-day returns under the assumption 12:16:25p
 21 of independence in the returns. 12:16:27p
 22 Now, some analysts, when 12:16:30p
 23 looking at two or -- two-day abnormal returns 12:16:32p
 24 or three-day abnormal returns will also 12:16:38p

Page 120

1 compute, based on the data, the 12:16:41p
 2 autocorrelation in the return series and try 12:16:44p
 3 to include that in the calculation of the 12:16:47p
 4 standard error. 12:16:50p
 5 Q. What does autocorrelation mean? 12:16:52p
 6 A. It refers to -- if you think 12:16:55p
 7 about correlation as being how two series move 12:16:59p
 8 together, autocorrelation refers to how a series 12:17:06p
 9 is related to the series lagged one day or one 12:17:14p
 10 month. 12:17:20p
 11 Q. What's the effect of 12:17:26p
 12 autocorrelation that some analysts use in this 12:17:28p
 13 context? 12:17:33p
 14 A. It depends on the size of the 12:17:34p
 15 autocorrelation. If the autocorrelation is 12:17:36p
 16 positive, it tends to make the standard error 12:17:40p
 17 somewhat bigger than the standard error that you 12:17:44p
 18 would get, assuming independence 12:17:47p
 19 Q. And what do you mean by 12:17:51p
 20 "assuming independence"? 12:17:53p
 21 A. Assuming independence means that 12:17:54p
 22 you are assuming that the autocorrelation is 12:17:58p
 23 zero on a one-day lag period 12:18:01p
 24 Q. Okay. So, now, the regression 12:18:05p

Page 121

1 you ran, if any, with regard to the two-day 12:18:08p
 2 period, I hope I have the presence of mind to 12:18:13p
 3 ask you to be good enough to produce that to us 12:18:17p
 4 if you can so retrieve it 12:18:19p
 5 A. I'll take it under 12:18:23p
 6 consideration. 12:18:24p
 7 Q. I appreciate it. 12:18:24p
 8 Now, other than that, that is, 12:18:27p
 9 other than with respect to the August -- wait 12:18:30p
 10 a minute, one other thing. You mentioned a 12:18:34p
 11 few minutes ago that it's your experience that 12:18:37p
 12 sometimes where there is a written report by 12:18:40p
 13 an analyst -- did I hear you correctly, that 12:18:44p
 14 it's your experience that sometimes the 12:18:48p
 15 contents of that written report are 12:18:50p
 16 disseminated orally prior to the issuance? 12:18:54p
 17 A. In the morning conference call 12:18:58p
 18 on the day that the report is issued. 12:19:00p
 19 Q. Okay. Is it your experience 12:19:03p
 20 that the contents are sometimes disseminated 12:19:05p
 21 prior to that on an oral basis? 12:19:09p
 22 A. I'm not sure what you mean by 12:19:14p
 23 "the contents disseminated." 12:19:19p
 24 Q. An analyst calls up a good 12:19:21p

CHRISTOPHER M. JAMES

Page 122

1 client and says, "I'm going to issue an analyst 12:19:24p
 2 report tomorrow that is going to have an impact 12:19:26p
 3 on the stock price. I just wanted you to know 12:19:28p
 4 what I'm going to say " 12:19:31p
 5 A. That -- I'm not familiar with 12:19:33p
 6 that practice. 12:19:35p
 7 Q. You are familiar with the 12:19:36p
 8 occurrence that stock prices move sometimes on 12:19:40p
 9 the basis of oral information being disseminated 12:19:45p
 10 into the marketplace? 12:19:51p
 11 A. Are you saying -- 12:19:55p
 12 Q. Rumors move stock prices 12:19:58p
 13 sometimes, don't they? 12:20:00p
 14 A. If they are material and -- if 12:20:02p
 15 they are material, they certainly can move stock 12:20:13p
 16 prices, and there are scientific methods for the 12:20:15p
 17 determination of whether a specific rumor or 12:20:21p
 18 conjecture is disseminated to the market. 12:20:31p
 19 Q. What are those scientific 12:20:36p
 20 methods? 12:20:37p
 21 A. Let me give a couple of 12:20:42p
 22 examples. 12:20:44p
 23 There is academic literature 12:20:45p
 24 that looks at the impact of, say, chat room 12:20:50p

Page 123

1 information, and that literature asks the 12:21:02p
 2 question of whether chat room information is 12:21:10p
 3 viewed as material to investors. 12:21:12p
 4 Now, what that literature 12:21:19p
 5 recognizes is that a reference in a chat room 12:21:21p
 6 to a particular company, whether that is 12:21:25p
 7 favorable or unfavorable, is likely to be a 12:21:32p
 8 subjective evaluation. So those studies 12:21:39p
 9 provide objective measures of the extent to 12:21:41p
 10 which there is discussion within a chat room 12:21:46p
 11 and objective measures as to whether that -- 12:21:51p
 12 those discussions are favorable or unfavorable 12:21:54p
 13 and then attempts to test whether that 12:21:59p
 14 information is viewed by market participants 12:22:04p
 15 as being material. 12:22:07p
 16 Q. What are these objective 12:22:11p
 17 measures determining whether the information is 12:22:18p
 18 favorable or unfavorable? 12:22:20p
 19 A. The -- and I'm going by 12:22:26p
 20 recollection, this is an article published in 12:22:27p
 21 the Journal of Finance maybe five years ago -- 12:22:29p
 22 the researchers set up a text-based search of 12:22:36p
 23 chat room information and identify certain words 12:22:42p
 24 that would be considered to be unambiguous with 12:22:51p

Page 124

1 favorable such as "buy" -- 12:22:59p
 2 Q. "Hot"? 12:23:01p
 3 A. Something like that. 12:23:03p
 4 -- and "negative," and then 12:23:09p
 5 try to come up with a quantitative measure of 12:23:09p
 6 the frequency on a particular day in which 12:23:12p
 7 those words appear, and then to use that 12:23:14p
 8 quantitative measure to examine whether on 12:23:20p
 9 that day there is a significant stock price 12:23:24p
 10 movement, and so what the researcher is doing 12:23:29p
 11 is setting up a -- an experiment that can be 12:23:34p
 12 replicated by a third party that is testing, 12:23:37p
 13 using objective scientific measures, the 12:23:43p
 14 significance of a piece of information. 12:23:49p
 15 Q. And you said Journal of Finance 12:23:55p
 16 five years ago or thereabouts? 12:23:58p
 17 A. Or thereabouts, yes. 12:24:00p
 18 Q. Who wrote it? 12:24:01p
 19 A. My recollection is a guy -- at 12:24:04p
 20 least one of the authors was at the University 12:24:06p
 21 of British Columbia. I don't recall, as I sit 12:24:09p
 22 here, who the authors are. 12:24:13p
 23 Q. That article dealt with chat 12:24:14p
 24 room -- 12:24:16p

Page 125

1 A. Right. 12:24:17p
 2 Q. -- communication. 12:24:18p
 3 Did it deal with oral rumors? 12:24:19p
 4 A. I don't recall. 12:24:25p
 5 Q. Rumor or other forms of oral 12:24:28p
 6 communication can, if material, affect stock 12:24:34p
 7 price; correct? 12:24:37p
 8 A. If that information is material 12:24:40p
 9 and becomes available to market participants 12:24:43p
 10 Q. And how in that case does one 12:24:46p
 11 objectively measure, if at all, as to whether 12:24:48p
 12 the information has materially affected the 12:24:53p
 13 market? 12:24:56p
 14 A. The procedure that I think I've 12:24:57p
 15 used and would use is to first provide 12:25:01p
 16 information -- to ascertain whether the 12:25:05p
 17 information that is characterized as -- you are 12:25:09p
 18 characterizing as rumor or opinion is publicly 12:25:15p
 19 available. So there is a news report, an 12:25:21p
 20 analyst report, a company disclosure, a 12:25:27p
 21 disclosure, say, of a government regulatory 12:25:33p
 22 agency, some objective way of determining 12:25:37p
 23 whether the information is publicly available. 12:25:39p
 24 And then the second step would 12:25:45p

CHRISTOPHER M. JAMES

Page 214		Page 216	
	are you? 03:55:25p	1	BY MR. COLLINS: 04:06:22p
2	A. That's not -- if -- I'm not sure 03:55:25p	2	Q. Could you explain the analysis 04:06:22p
3	why you would draw that inference. That's not 03:55:30p	3	of Exhibit 12, please. 04:06:24p
4	an inference that I -- that I have made. 03:55:33p	4	A. Exhibit 12 again? 04:06:28p
5	Q. Well, maybe we are 03:55:38p	5	Q. Yes, you just -- I'm so sorry, 04:06:30p
6	misunderstanding each other or maybe I misspoke. 03:55:39p	6	no, no, no. You just referred to Exhibit 10 04:06:32p
7	Exhibit 5 -- 03:55:44p	7	A. Yes. When I refer to that, I 04:06:36p
8	A. Yes. 03:55:47p	8	meant to refer to both Exhibit 10 and Exhibit 4. 04:06:40p
9	Q. -- and the statistical 03:55:47p	9	Q. Okay. Thank you. 04:06:45p
10	conclusions you reached there with respect to 03:55:47p	10	Could you explain that 04:06:48p
11	your report, are those conclusions of no 03:55:50p	11	analysis, please. 04:06:49p
12	statistically significant individual event 03:55:51p	12	A. Sure. Let's start with Exhibit 04:06:50p
13	consistent with the discussion as contained in 03:55:55p	13	4. This indicates a statistically significant 04:06:53p
14	the July 28th memo regarding what has caused the 03:56:03p	14	relationship both between the NASDAQ and -- used 04:07:08p
15	decline in Adams stock? 03:56:07p	15	in a single factor, and the industry, as defined 04:07:17p
16	A. Yeah, I think the confusion 03:56:10p	16	by Gold -- Bloomberg golf index excluding Active 04:07:25p
17	is -- and this was the source of confusion 03:56:12p	17	and Family Golf Centers. 04:07:31p
18	earlier today -- that my report contains both an 03:56:15p	18	Q. That's the modified Bloomberg 04:07:34p
19	analysis on a daily basis of the materiality of 03:56:22p	19	golf index you referred to in your report; 04:07:36p
20	certain disclosures as well as an analysis using 03:56:27p	20	correct? 04:07:39p
21	monthly returns, market share, industry indices 03:56:36p	21	A. That's correct. 04:07:39p
22	which reflect the relationship between Adams 03:56:43p	22	Q. Why did you take out those two 04:07:40p
23	Golf stock price or returns and general industry 03:56:46p	23	companies? 04:07:41p
24	and market-wide factors And -- 03:56:49p	24	A. One is a software company, not a 04:07:41p
Page 215		Page 217	
1	Q. I'm sorry, please. 03:56:54p	1	golf company, which is not atypical in -- when 04:07:44p
2	A. And it was with respect to that 03:56:55p	2	you are looking at indices that sometimes 04:07:51p
3	latter statistical analysis that I was referring 03:56:57p	3	something that is related to, say, golf 04:07:54p
4	to this being consistent with (indicating). 03:57:01p	4	industries but is not a golf equipment seller, 04:07:59p
5	Q. Okay. That's good. 03:57:05p	5	say, might be in an index. Okay? 04:08:02p
6	So you believe that the July 03:57:06p	6	And Family Golf Centers, my 04:08:05p
7	28th memo -- Exhibit 176? 03:57:08p	7	recollection is Family Golf Centers is a REIT, 04:08:11p
8	A. Mm-hmm 03:57:11p	8	R-E-I-T, which invests principally -- 04:08:15p
9	Q. -- is consistent with the 03:57:12p	9	exclusively in golf resort properties. 04:08:21p
10	statistical analysis as reflected in Exhibit 12, 03:57:14p	10	Q. Okay. 04:08:28p
11	but not necessarily the statistical analysis 03:57:18p	11	A. Now, Exhibit 10 looks at, based 04:08:30p
12	showing no statistically significant events at 03:57:21p	12	on the monthly returns, the relationship between 04:08:43p
13	Exhibit 5. Have I got that right? 03:57:24p	13	Adams Golf and that same industry index and 04:08:54p
14	A. I was not -- again, I wasn't 03:57:26p	14	tests whether there is a statistically 04:09:00p
15	narrowing it to just Exhibit 12. I was also 03:57:29p	15	significant result. 04:09:03p
16	referring to the analysis in Exhibit, say, 10. 03:57:33p	16	Q. This says this is monthly 04:09:08p
17	Q. Okay. 03:57:43p	17	observations in Exhibit 10? 04:09:09p
18	A. When you get there, why don't we 03:57:44p	18	A. Right. 04:09:12p
19	-- can I just take another short break? 03:57:47p	19	Q. That means one observation or 04:09:13p
20	Q. Of course. 03:57:51p	20	one data point per month? 04:09:14p
21	A. Thank you. 03:57:52p	21	A. Yes. 04:09:16p
22	(A recess was had from 3:57 p.m. 03:57:53p	22	Q. And does that apply for both the 04:09:17p
23	to 4:06 p.m.; and then the proceedings 03:57:53p	23	industry index and the Adams stock price? 04:09:19p
	continued as follows:) 03:57:53p	24	A. Yes -- or stock return. 04:09:22p

CHRISTOPHER M. JAMES

Page 218

1 Q. Stock return. 04:09:25p
 2 And how do you choose what 04:09:26p
 3 stock return you use? 04:09:29p
 4 A. Over the month? 04:09:32p
 5 Q. For each month. 04:09:33p
 6 A. It's from the close of the prior 04:09:37p
 7 month to the close of the current month, so it 04:09:40p
 8 would be the cumulative return over the month, 04:09:44p
 9 so all of the returns in the month are used. 04:09:49p
 10 All the daily returns are incorporated into the 04:09:53p
 11 monthly return. 04:09:57p
 12 Q. And for the monthly observation 04:09:57p
 13 for the industry index, how did you determine 04:10:00p
 14 that? 04:10:02p
 15 A. The same, the same way. So you 04:10:02p
 16 take each component of the industry -- I think 04:10:05p
 17 the index -- the Bloomberg index is on -- you 04:10:08p
 18 can -- I think -- I think I recall seeing it on 04:10:12p
 19 a level basis, you just take level prior month 04:10:15p
 20 -- level at the end of the month plus level at 04:10:22p
 21 the prior month divided by level at the prior 04:10:25p
 22 month will give you the return over that month, 04:10:28p
 23 the same way you calculate a return over the 04:10:30p
 24 month. 04:10:32p

Page 219

1 Q. Why did you perform the 04:10:33p
 2 regression in Exhibit 10; what did that add to 04:10:35p
 3 the work you were doing otherwise? 04:10:37p
 4 A. I think we touched on this topic 04:10:40p
 5 this morning when we had a discussion of why 04:10:43p
 6 market participants and researchers utilize, 04:10:52p
 7 say, monthly returns. Remember I said if you 04:10:56p
 8 look at Ibbotson or Barra or other vendors of 04:11:01p
 9 what are called betas, how stock moves with the 04:11:08p
 10 market, those vendors may also have how stock 04:11:11p
 11 moves with industry comparables; that generally 04:11:15p
 12 that analysis -- not always, but typically that 04:11:19p
 13 analysis is done to figure out the influence of 04:11:22p
 14 general industry factors, is done on a monthly 04:11:26p
 15 basis as opposed to a daily basis for the 04:11:28p
 16 reasons I gave you before, which is that on a 04:11:34p
 17 monthly basis you are basically taking out a lot 04:11:35p
 18 of noise that occurs, what a statistician would 04:11:40p
 19 refer to as noise, on the daily returns due to 04:11:45p
 20 randomness 04:11:48p
 21 Q. So, again, with regard to 04:11:51p
 22 Exhibit 10, if there were volatility in either 04:11:52p
 23 the index on an intramonth basis or in Adams 04:11:56p
 24 Golf stock on an intramonth basis, that would 04:11:59p

Page 220

1 not be reflected; that would be washed out by 04:12:03p
 2 your monthly observation? 04:12:07p
 3 A. Yes, but it would be only 04:12:10p
 4 looking at how one could explain monthly 04:12:12p
 5 variations in the stock return relative to 04:12:17p
 6 monthly variations in the industry index. 04:12:22p
 7 Q. Why was the period under study 04:12:28p
 8 in Exhibit 10, why did that cut off at June 11? 04:12:31p
 9 A. You know, I looked at Exhibit 10 04:12:34p
 10 and I knew you were going to ask that question, 04:12:36p
 11 and I don't recall. I think it, frankly, might 04:12:38p
 12 be an oversight. 04:12:42p
 13 Q. "An oversight" meaning what? 04:12:43p
 14 A. On my part. So I need to go 04:12:46p
 15 back -- in just assembling this, as I sit here, 04:12:48p
 16 I don't recall why it ended in June of 1999. 04:12:55p
 17 Q. Did you consider -- and I 04:12:58p
 18 understand, I respect people that forget things, 04:13:02p
 19 I do that, too. But did you consider, if you 04:13:04p
 20 know, running the regression at Exhibit 10 04:13:06p
 21 through December '99 as you ran the regressions 04:13:09p
 22 in Exhibit 12? 04:13:18p
 23 A. I don't recall making a 04:13:24p
 24 distinction between June of 1999 and December of 04:13:27p

Page 221

1 1999, so as I sit here I don't recall making any 04:13:35p
 2 conscious decision to cut one analysis at 6/99 04:13:44p
 3 and the other analysis at year-end 1999. 04:13:48p
 4 Q. I want to go back to a couple of 04:13:58p
 5 points you raised earlier. First, you said that 04:14:00p
 6 you did consider a two-day event window in 04:14:03p
 7 response to the August 28, 1998, Lehman analyst 04:14:07p
 8 report; correct? 04:14:14p
 9 A. Right. 04:14:15p
 10 Q. Did you consider a three-day 04:14:15p
 11 event window? 04:14:17p
 12 A. No. 04:14:18p
 13 Q. Did you consider a two-day event 04:14:18p
 14 window with regard to any other periods of the 04:14:21p
 15 class period? 04:14:25p
 16 A. I don't recall that I did. 04:14:29p
 17 I do recall, as we mentioned 04:14:34p
 18 earlier today, doing an analysis in response 04:14:37p
 19 to something which was in Mr. Miller's report, 04:14:43p
 20 and that was he indicated -- he made two 04:14:50p
 21 points: First, that, you know, while I looked 04:14:55p
 22 at statistical significance at a 95 percent 04:15:00p
 23 level, I didn't look at the significance at 04:15:04p
 24 other levels. And, as I indicated in my 04:15:06p

56 (Pages 218 to 221)

CHRISTOPHER M. JAMES

Page 222		Page 224	
1	report, the 95 percent level is the 04:15:08p	1	regarding -- there would be no reason to use a 04:18:22p
2	conventional level; although, some researchers 04:15:11p	2	multiple-day window more than two days for this 04:18:28p
3	will report significance at a 10 percent 04:15:17p	3	analysis because you would use that if you were 04:18:34p
4	level. And so I examined whether there were 04:15:21p	4	uncertain as -- you have a news announcement -- 04:18:37p
5	days that were significant at a 90 percent 04:15:31p	5	we talked about this earlier today; if you had a 04:18:40p
6	level and what information was coming to the 04:15:36p	6	news announcement and you weren't sure whether 04:18:44p
7	market on those days 04:15:47p	7	that news announcement was made -- you know what 04:18:46p
8	Second is in response to a 04:15:49p	8	day it was made on, but you don't know whether 04:18:48p
9	comment in his report concerning looking at the 04:15:51p	9	it was during trading hours or not. 04:18:54p
10	returns over multiple days. I asked the 04:16:01p	10	Q. Sure. 04:18:54p
11	question of whether if the results and my 04:16:03p	11	But you might also have new 04:18:54p
12	conclusions regarding statistical significance 04:16:11p	12	information enter in the market or allegedly 04:18:55p
13	and the information coming to the market on 04:16:16p	13	new information enter in the market that might 04:18:58p
14	those days would be altered if I used a two-day 04:16:18p	14	be in the form of rumor or oral communication 04:19:01p
15	window, and concluded that -- my conclusions 04:16:25p	15	which would be another situation in which you 04:19:03p
16	were the same whether I used a two-day window or 04:16:33p	16	were uncertain as to what the disclosure date 04:19:06p
17	a one-day window for each of the events that I 04:16:36p	17	is Correct? 04:19:08p
18	analyzed. 04:16:43p	18	A. No, I would certainly think that 04:19:09p
19	So if you take the Golf Pro 04:16:44p	19	if there was an allegation that a rumor or oral 04:19:11p
20	August 1st article and say, well, look at a 04:16:47p	20	communication were material, that you would be 04:19:18p
21	two-day window around that, would that alter 04:16:50p	21	able to identify the date at which that 04:19:25p
22	your conclusion regarding the statistical 04:16:53p	22	information became available to the market. I 04:19:30p
23	significance, would using a 90 percent 04:16:58p	23	would also say that -- and be able to relate it, 04:19:33p
24	confidence interval as opposed to a 95 percent 04:17:05p	24	as I talked about earlier today, in an objective 04:19:37p
Page 223		Page 225	
1	confidence interval impact the conclusion, and 04:17:08p	1	scientific manner, to the price reaction. 04:19:44p
2	the answer to both of those questions is no. 04:17:11p	2	As I have indicated, oral 04:19:48p
3	Q. Which events or which time 04:17:19p	3	communication, as it would be in the context 04:19:51p
4	periods during the class period did you consider 04:17:21p	4	of a conference call with investors, you would 04:19:52p
5	using a multiple-day event window for? 04:17:25p	5	look at the day on which that conference call 04:19:57p
6	A. Every day. 04:17:29p	6	occurred, that oral communication, for 04:19:59p
7	Q. Okay. And which events did you 04:17:31p	7	purposes of determining whether that 04:20:03p
8	consider using the 90 percent confidence level 04:17:33p	8	communication was material. 04:20:07p
9	for? 04:17:37p	9	Q. If it were a rumor, however, you 04:20:09p
10	A. Every day. 04:17:38p	10	might not know when the rumor first started 04:20:11p
11	Q. And how did you apply that using 04:17:40p	11	circulating; correct? 04:20:15p
12	every day? For example, if I can turn you to 04:17:42p	12	A. I think that's -- I mean, again, 04:20:19p
13	Page Exhibit 5? 04:17:46p	13	it's -- and we went through this before -- I 04:20:22p
14	A. Mm-hmm 04:17:54p	14	would -- if I were asked to assess the 04:20:25p
15	Q. With regard to using a 04:17:55p	15	materiality of an alleged rumor, the first step 04:20:28p
16	multiple-day event window, what did you mean by 04:18:00p	16	I would take is to try to determine when that 04:20:33p
17	that; three days or five days? 04:18:03p	17	rumor was being utilized by market participants 04:20:35p
18	A. Two days 04:18:04p	18	for purposes of pricing or valuing the stock. 04:20:45p
19	Q. Okay. You didn't look at 04:18:05p	19	I would also think that -- 04:20:48p
20	anything more than two days, did you? 04:18:06p	20	there's certainly -- and I would -- I would 04:20:54p
21	A. No, I had no information that 04:18:08p	21	expect to see, if it was a rumor that was 04:20:59p
22	would indicate to me that the market would not 04:18:10p	22	material and significant to investors, that -- 04:21:02p
23	operate in an efficient way and I had no 04:18:15p	23	as I indicated before, that there would be 04:21:06p
	information to me that indicated any uncertainty 04:18:18p	24	some commentary on it, in some source. 04:21:08p

CHRISTOPHER M. JAMES

Page 226			Page 228		
1	Q. Let me give you another	04:21:14p	1	stock price. Typically under those	04:23:53p
2	example. How about with regard to insider	04:21:16p	2	circumstances in which insider trading does move	04:23:55p
3	trading? Now, insider trading is not the	04:21:20p	3	the stock price, there's some knowledge by	04:23:58p
4	dissemination of — the example is the	04:21:25p	4	market participants of the identity of the	04:24:01p
5	dissemination of insider information and	04:21:28p	5	trader or the size of the trade is significant	04:24:04p
6	accompanying insider trading. Now, that is not	04:21:33p	6	and reflective of an insider trade.	04:24:09p
7	rumor, that is dissemination or acting upon	04:21:36p	7	Q. Well, just because a trade is	04:24:13p
8	certain information. And there may be in the	04:21:41p	8	large doesn't necessarily mean it has to be an	04:24:16p
9	case of insider trading no writing that	04:21:44p	9	insider trade. And just because there's insider	04:24:18p
10	commemorates or confirms the information on	04:21:50p	10	trading doesn't mean anybody ever has to find	04:24:22p
11	which the trading is occurring	04:21:53p	11	out who it is who was doing the trading and, in	04:24:25p
12	A. No, I think my experience	04:21:56p	12	fact, sadly, it happens frequently, at least the	04:24:27p
13	certainly with insider trading cases would be	04:21:58p	13	SEC and the general public never do learn who	04:24:30p
14	that the insiders trade on what they believe to	04:22:01p	14	that insider trader is. Correct?	04:24:35p
15	be material information which is subsequently	04:22:06p	15	A. And those are the reasons you	04:24:38p
16	revealed to the market, and when that	04:22:08p	16	are providing as to why insider trading often	04:24:39p
17	information is revealed to the market, there is	04:22:10p	17	goes undetected and often is profitable, because	04:24:42p
18	a significant price reaction, unless you have	04:22:13p	18	it doesn't move the stock price.	04:24:47p
19	situations in which you have an insider trading	04:22:17p	19	Q. Right, but you just said	04:24:48p
20	a large block and that insider's trade is	04:22:22p	20	yourself a moment ago it might.	04:24:50p
21	identified by market participants as his or her	04:22:27p	21	A. Under certain circumstances, the	04:24:52p
22	trade.	04:22:32p	22	circumstances of which I indicated to you,	04:24:54p
23	Q. I don't know why you are so	04:22:32p	23	where, for example, the identity of the trader	04:25:00p
24	restrictive. Hasn't it frequently been the	04:22:33p	24	or the size of the trade would reveal that it	04:25:02p
Page 227			Page 229		
1	experience that in advance of mergers, for	04:22:37p	1	was a, quote, information-based trade.	04:25:07p
2	example, there has been unexplained trading to	04:22:42p	2	Q. And barring that, you don't	04:25:11p
3	the extent that there are some people on Wall	04:22:47p	3	believe that insider trading moves stock prices,	04:25:14p
4	Street who believe that it's a fairly common	04:22:49p	4	has a material impact on stock prices?	04:25:18p
5	experience, or has been at different points in	04:22:54p	5	A. I'm not saying that it does —	04:25:21p
6	time, for insider trading to occur where it's	04:22:57p	6	that some instances of insider trading might not	04:25:24p
7	very difficult to identify who the participants	04:23:04p	7	have a material impact on stock prices. I think	04:25:27p
8	in that trading are?	04:23:07p	8	that is — if I were to undertake, say, an	04:25:29p
9	A. I think you need to draw a	04:23:09p	9	analysis of a company stock to determine whether	04:25:35p
10	distinction between the trading and material new	04:23:11p	10	insider trading had a material impact on the	04:25:38p
11	information and that's what I'm trying to do,	04:23:15p	11	stock price, I would undertake the same type of	04:25:43p
12	which is that it certainly may be an insider may	04:23:18p	12	analysis that I conducted here. I would look to	04:25:45p
13	trade in front of an information release and the	04:23:22p	13	objective evidence as to whether there was	04:25:48p
14	reason that that trader can profit either	04:23:26p	14	insider trading and then to analyze whether	04:25:50p
15	through purchasing or selling is because they	04:23:30p	15	there was a statistically significant stock	04:25:53p
16	are trading at a price that doesn't reflect that	04:23:32p	16	price movement on that day.	04:25:56p
17	information. When that information becomes	04:23:35p	17	Q. Very good	04:25:57p
18	available to the market and if it is material,	04:23:37p	18	However, you might, under those	04:26:01p
19	then it will move the stock price.	04:23:39p	19	circumstances, if you believe the insider	04:26:03p
20	Q. Are you denying that insider	04:23:41p	20	trading occurred over a variety of days, use	04:26:06p
21	trading itself can move the stock price?	04:23:43p	21	an event window of more than one day; correct?	04:26:10p
22	A. No, I'm not. I'm saying that	04:23:45p	22	A. If I had reason to believe that	04:26:13p
23	it's certainly possible under certain	04:23:47p	23	a particular — that there were — that there	04:26:17p
24	circumstances for insider trading to move the	04:23:50p	24	was a — I think it would depend on the	04:26:20p

CHRISTOPHER M. JAMES

Page 246			Page 248		
1	A. I don't have -- I don't think	05:08:04p	1	statistically significant events, say, that	05:11:09p
2	one can state for a particular day, with a	05:08:06p	2	those are days in which material new information	05:11:12p
3	reasonable degree of scientific certainty, the	05:08:15p	3	comes to the market as measured by the stock	05:11:14p
4	reason for that particular day's unexplained	05:08:19p	4	return adjusted for the movements in the market	05:11:18p
5	stock price movement.	05:08:25p	5	on that particular day. So, for example, if the	05:11:23p
6	As I indicated, when asked	05:08:26p	6	market were up 20 percent on a particular day	05:11:27p
7	similar kinds of questions earlier today, that	05:08:31p	7	and a model has a coefficient that says the	05:11:30p
8	should not be and would be a mistake to	05:08:35p	8	relationship between the market and the stock is	05:11:35p
9	conclude from that that a model that explains,	05:08:37p	9	one in which if the market on average goes up by	05:11:37p
10	say, 17 or 20 percent of the daily volatility	05:08:44p	10	20 percent, the stock goes up by 35 percent, if	05:11:40p
11	leaves unexplained 80 percent of the price	05:08:52p	11	the stock were down 20 percent, hypothetically,	05:11:43p
12	movement over, say, a class period, that would	05:08:55p	12	then that might be an unusual market movement	05:11:51p
13	be an incorrect inference.	05:08:57p	13	relative to what would be expected by the	05:11:54p
14	And the reason that inference	05:09:01p	14	market.	05:11:56p
15	would be incorrect, as I talked about earlier	05:09:03p	15	Now, that model might be able	05:11:57p
16	today, is that while such a model might not be	05:09:06p	16	to explain on daily variability only 20	05:11:59p
17	able to explain intraday or daily volatility	05:09:09p	17	percent of the variability, but over a period	05:12:03p
18	greater than, say, 20 percent, that model	05:09:19p	18	of time if, again, every time the market	05:12:05p
19	could be very good, and this model is in fact	05:09:21p	19	moves, on average when the market moves the	05:12:10p
20	very good, at explaining why the stock price	05:09:23p	20	stock moves by, what did I say, two times, or	05:12:13p
21	went from 18 at the first day of trading down	05:09:29p	21	whatever the market movement, so over that	05:12:17p
22	to four, because the predictions of that	05:09:35p	22	period of time, if the market is up 20	05:12:20p
23	model, both the daily and monthly model, would	05:09:40p	23	percent, I would expect the company to be up	05:12:26p
24	predict such a movement based upon the	05:09:48p	24	40 percent; if the market is, in this case,	05:12:30p
Page 247			Page 249		
1	relationship that the model identifies between	05:09:51p	1	down 20 percent, I would expect the company to	05:12:34p
2	industry or market factors and the stock	05:09:54p	2	be down 40 percent, just by looking at the	05:12:37p
3	return.	05:09:59p	3	market parameters that have been estimated	05:12:41p
4	Q. I'll tell you, I really don't	05:10:00p	4	Okay?	05:12:44p
5	understand how you can say that with regard to	05:10:02p	5	So if that would occur, even if	05:12:45p
6	the daily return models, so maybe you can just	05:10:04p	6	the market -- even if the market had -- even	05:12:49p
7	explain one more time exactly what you were just	05:10:09p	7	if the model had explanatory power on a	05:12:52p
8	describing a moment ago --	05:10:12p	8	particular day of explaining the variability	05:12:55p
9	A. Certainly	05:10:13p	9	at, say, 20 percent, the model still could be	05:12:57p
10	Q. -- how when you have a model	05:10:15p	10	very good at picking up long-term trends in	05:13:02p
11	that has an index that has a 17 or 18 percent	05:10:17p	11	the stock price that are related to market	05:13:09p
12	fit, you can use that to explain more than 17 to	05:10:23p	12	factors.	05:13:14p
13	18 percent of the movement to the extent that	05:10:28p	13	Q. That's fine	05:13:15p
14	that is explained by the model or alluded to by	05:10:31p	14	So leaving apart the	05:13:18p
15	the model and how you can explain more than the	05:10:35p	15	regressions that use monthly observations, is	05:13:20p
16	statistically significant firm-related movements	05:10:39p	16	there any evidence in your report, any	05:13:24p
17	that you identified on three days.	05:10:43p	17	exhibit, any set of numbers, establishing, you	05:13:29p
18	Explain to me just one more	05:10:46p	18	believe, that that has in fact occurred here?	05:13:34p
19	time, please, how you can explain any more of	05:10:47p	19	A. I think that the results in	05:13:38p
20	the movement than 17 or 18 percent plus the	05:10:50p	20	Exhibit 4 are indicative of that. I think, also	05:13:41p
21	amount of movement reflected by those three	05:10:56p	21	-- and this may have been a -- I mean, you would	05:13:46p
22	statistically significant events, please.	05:11:00p	22	expect given the -- given knowledge that the	05:13:58p
23	A. Well, because the three -- let's	05:11:06p	23	NASDAQ was down during the class period -- I	05:14:04p
24	take them in reverse order. The three	05:11:06p	24	believe it was -- my recollection of it was	05:14:09p

CHRISTOPHER M. JAMES

Page 250

1 maybe 20 percent -- that Adams Golf, given its 05:14:16p
 2 relationship with the NASDAQ, would also be down 05:14:26p
 3 a substantial amount for the reasons I gave you 05:14:31p
 4 earlier today. 05:14:37p
 5 Q. And you've been very patient 05:14:38p
 6 A. Okay. 05:14:40p
 7 Q. But I would think for a 05:14:41p
 8 scientist it's a little too loose for you just 05:14:42p
 9 to say, well, the NASDAQ was down 20 percent 05:14:45p
 10 during the period, so you would expect Adams to 05:14:47p
 11 be down, too. 05:14:50p
 12 On the contrary, you said there 05:14:51p
 13 is a 17 percent fit between -- 17.6 percent 05:14:52p
 14 fit between NASDAQ's movement and Adams Golf's 05:14:58p
 15 movement, so I don't know any reason why one 05:15:06p
 16 would expect -- on the basis of what you've 05:15:08p
 17 testified to today or from any more than one 05:15:10p
 18 can read from your report, to expect that any 05:15:15p
 19 more than 17 percent or 17.6 percent of Adams' 05:15:17p
 20 movement can be explained by the index that 05:15:21p
 21 you say is a 17.6 percent fit? 05:15:23p
 22 A. Well, certainly my statements 05:15:29p
 23 were not loose in any way, they were very 05:15:30p
 24 precise. And I think your confusion is a 05:15:34p

Page 251

1 confusion that frankly your expert suffers from 05:15:43p
 2 as well, and it is a confusion over the 05:15:46p
 3 explanatory power of a model on an individual 05:15:52p
 4 day versus the ability of a model to explain a 05:15:56p
 5 trend, and, again, it is just -- the coefficient 05:16:00p
 6 estimates in the model can be used to estimate 05:16:13p
 7 -- are used to estimate trends, so it is 05:16:21p
 8 incorrect, just as a statistical proposition, to 05:16:24p
 9 say that because the explanatory power of the 05:16:31p
 10 model is 17 percent, it can only explain over a 05:16:35p
 11 period of time 17 percent of the price movement 05:16:40p
 12 -- okay? -- and to imply by that that if a stock 05:16:44p
 13 were down, that only 17 percent of the decline 05:16:49p
 14 can be explained by that model. 05:16:53p
 15 Q. So the evidence that more than 05:16:56p
 16 17 percent of the decline can be explained by 05:16:59p
 17 the model, or more than 18 percent, that 05:17:02p
 18 evidence is presented here on Exhibit 4 in the 05:17:05p
 19 coefficient factor? 05:17:08p
 20 A. I think that those coefficients 05:17:09p
 21 are consistent with and can be used to identify 05:17:12p
 22 that a substantial portion, virtually all of the 05:17:20p
 23 decline in Adams Golf price, is explained by the 05:17:24p
 24 model over the class period. 05:17:31p

Page 252

1 Q. So, if you would, explain with 05:17:39p
 2 regard to the coefficient t statistics the 05:17:41p
 3 meaning of the two-factor model NASDAQ and 05:17:53p
 4 industry where you list 0.89, can you tell me 05:17:57p
 5 what that means, please 05:18:01p
 6 A. You are on Exhibit 4? 05:18:03p
 7 Q. I'm on Exhibit 4, right, under 05:18:05p
 8 two-factor model NASDAQ and industry. 05:18:07p
 9 A. Where is zero? 05:18:13p
 10 Oh, 0.89? 05:18:14p
 11 Q. Please. 05:18:16p
 12 A. What that is saying is that on 05:18:16p
 13 average a 1 percent move in the NASDAQ would 05:18:21p
 14 yield a .89 percent move in Adams stock return, 05:18:31p
 15 and that a one percent move in the industry 05:18:42p
 16 would explain or would -- model would predict a 05:18:45p
 17 .58 percent move in the Adams stock return. 05:18:52p
 18 Q. And what's the negative 0.01? 05:18:57p
 19 A. That's called the intercept, and 05:19:01p
 20 that would say that since this is under a 05:19:09p
 21 returns basis that in terms of forecasting a 05:19:12p
 22 return on a particular day it would be minus .01 05:19:19p
 23 plus .89 times the return on the NASDAQ on that 05:19:25p
 24 day plus .58 times the return on the industry on 05:19:30p

Page 253

1 that day. 05:19:36p
 2 Q. Tell me about the negative 2.45 05:19:36p
 3 or the "(2.45)." 05:19:40p
 4 A. That is the t statistic on that 05:19:45p
 5 coefficient. 05:19:48p
 6 Q. And "t statistic" means what, 05:19:49p
 7 please? 05:19:51p
 8 A. It is a test for the statistical 05:19:52p
 9 significance of that coefficient. 05:19:55p
 10 Q. And what in general is the 05:19:57p
 11 threshold for statistical significance in the 05:19:59p
 12 use of t statistics? 05:20:04p
 13 A. Typically, 95 percent. 05:20:07p
 14 Q. Okay. In your various analyses 05:20:09p
 15 here, am I correct that you don't rely at all on 05:20:26p
 16 changes in volume? 05:20:29p
 17 A. I haven't -- I believe I record 05:20:33p
 18 -- I'm sorry, I do have and did look at volume 05:20:48p
 19 information. I did not examine materiality 05:20:53p
 20 based on abnormal volume. 05:21:02p
 21 Q. Why not? 05:21:04p
 22 A. Because I was looking for 05:21:05p
 23 whether that piece of information had a material 05:21:09p
 24 impact on the value of the stock. 05:21:17p

CHRISTOPHER M. JAMES

Page 254			Page 256		
Q.	Are there models that can be	05:21:20p	1	evidence, apart from what you've put in your	05:24:16p
2	used that test materiality on the basis of	05:21:21p	2	reports, to indicate when that Golf Pro article	05:24:21p
3	volume or some combination of volume and price	05:21:25p	3	was available?	05:24:24p
4	movement?	05:21:29p	4	A. Yes.	05:24:26p
5	A. I mean, I have not seen that	05:21:37p	5	Q. When?	05:24:26p
6	analysis done in the context of, say, a damage	05:21:40p	6	A. In response to the Miller report	05:24:28p
7	analysis. I have seen some academic studies	05:21:43p	7	where he conjectures that it might have been	05:24:32p
8	that ask the question of whether information has	05:21:49p	8	available earlier, I performed the following	05:24:37p
9	an effect on trading volume.	05:22:01p	9	test. Based upon communications that I'm aware	05:24:40p
10	Q. And do you have any opinion as	05:22:11p	10	of between Cornerstone and the publishers of	05:24:46p
11	to the usability or appropriateness of those	05:22:13p	11	Golf Pro, which is now not currently published,	05:24:53p
12	models?	05:22:17p	12	they were unable to answer the question as to	05:25:04p
13	A. I think the appropriateness	05:22:20p	13	whether it was available before or after the	05:25:05p
14	would depend on the purpose of their being	05:22:23p	14	cover price -- cover date.	05:25:08p
15	used. I would have to go back and look at some	05:22:31p	15	So I conducted a Factiva search	05:25:11p
16	of those papers. Most of the paper -- the	05:22:36p	16	between 1995 and 2000 in which I used the	05:25:15p
17	academic literature in finance is more focused	05:22:40p	17	keywords "Golf Pro magazine," and then I	05:25:22p
18	on how information impacts value as opposed to	05:22:48p	18	looked at all of the articles that were	05:25:26p
19	trading volume. Although, there are a few	05:22:53p	19	available on Factiva that reference Golf Pro	05:25:29p
20	papers out there that look at trading volume. I	05:22:55p	20	magazine and asked the question of whether	05:25:34p
21	just don't recall what the conclusions are	05:22:58p	21	there was any reference in the public press to	05:25:36p
22	Q. The famous Golf Pro article	05:22:59p	22	a Golf Pro magazine article prior to the	05:25:41p
23	allegedly of August or August 1, 1998, when was	05:23:03p	23	stated publication date on the cover, and I	05:25:46p
24	that available to the market?	05:23:08p	24	was able to identify several instances in	05:25:50p
Page 255			Page 257		
1	A. As I indicate in my report, it's	05:23:10p	1	which there is a reference to a particular	05:25:53p
2	my opinion that it's available to the market on	05:23:16p	2	issue of Golf Pro magazine, and all of the	05:25:57p
3	August 1st.	05:23:19p	3	references were after the publication date	05:26:01p
4	Q. Well, surely you're not offering	05:23:19p	4	which is consistent with -- which is	05:26:04p
5	an opinion on that now, Dr. James, are you?	05:23:21p	5	inconsistent with the conjecture by Mr. Miller	05:26:09p
6	A. Yes, I am.	05:23:23p	6	that the information was available to the	05:26:13p
7	Q. You might be making an	05:23:24p	7	market prior to the cover date.	05:26:19p
8	assumption, but you are offering -- are you an	05:23:26p	8	Q. Did you save those searches?	05:26:27p
9	expert with regard to when Golf Pro appeared in	05:23:29p	9	A. No.	05:26:29p
10	1998?	05:23:32p	10	Q. Did you communicate with your	05:26:30p
11	A. I'm not representing myself to	05:23:33p	11	office about providing to us information with	05:26:34p
12	be an expert in when Golf Pro appeared. I am	05:23:35p	12	regard to the additional regressions you said	05:26:35p
13	representing myself to be an expert in, first of	05:23:40p	13	you would have?	05:26:38p
14	all, knowing what the publication date and the	05:23:43p	14	A. I have -- it's not my office	05:26:41p
15	convention of using publication dates. I	05:23:50p	15	Q. Cornerstone. Whomever you had	05:26:43p
16	believe your own expert uses the publication	05:23:52p	16	to communicate with.	05:26:44p
17	date as the date referenced in his chronology.	05:23:55p	17	A. Yes, and the individual that is	05:26:46p
18	Second, I undertook an	05:23:59p	18	available -- the individual who undertook that	05:26:53p
19	investigation to determine whether there was	05:24:01p	19	analysis is not available, he's -- that's Amir	05:26:59p
20	any evidence that suggests that the Golf Pro	05:24:03p	20	Rosen, and I believe he's attending a deposition	05:27:07p
21	article was available prior to the cover day	05:24:06p	21	today.	05:27:10p
22	and concluded based on that analysis that	05:24:12p	22	Q. Not in this case?	05:27:11p
23	there was none.	05:24:14p	23	A. Yes, I believe he's downstairs,	05:27:12p
	Q. Okay. Do you know of any	05:24:15p	24	two stories down.	05:27:14p

CHRISTOPHER M. JAMES

Page 258			Page 260		
1	Q. Have you spoken to him about	05:27:17p	1	(A recess was had from 5:30 p.m.	05:30:13p
2	this?	05:27:18p	2	to 5:36 p.m.; and then the proceedings	05:30:13p
3	A. I have spoken to him and said I	05:27:20p	3	continued as follows:)	05:30:13p
4	don't have my computer with me. He did not have	05:27:24p	4	MR. COLLINS: No further	05:36:42p
5	his computer with him either, so...	05:27:27p	5	questions. Thank you.	05:36:43p
6	MR. COLLINS: Okay, counsel and I	05:27:31p	6	(Deposition concluded at	
7	will have to talk about that, but we	05:27:32p	7	5:36 p.m.)	
8	can in a moment off the record.	05:27:33p	8	---	
9	BY MR. COLLINS:	05:27:37p	9		
10	Q. Apart from what you have said	05:27:37p	10		
11	today and apart from what is in your rebuttal,	05:27:40p	11		
12	do you have any further criticisms of Miller's	05:27:43p	12		
13	report?	05:27:46p	13		
14	A. I think my rebuttal report is a	05:27:52p	14		
15	fair summary of the criticisms that I had of	05:27:59p	15		
16	Mr. Miller's report.	05:28:02p	16		
17	Q. Apart from what you put in both	05:28:03p	17		
18	reports and apart from what you said today, are	05:28:07p	18		
19	you going to opine on anything else in this	05:28:10p	19		
20	case?	05:28:13p	20		
21	A. I think the deposition questions	05:28:17p	21		
22	and my expert reports have covered the general	05:28:24p	22		
23	areas that I expect to opine on.	05:28:27p	23		
24	Q. Are there any specific areas	05:28:31p	24		
Page 259			Page 261		
1	that have not yet been covered?	05:28:33p	1	CERTIFICATE	
2	A. I don't -- as I sit here, I	05:28:36p	2	I, Pamela Harrison, a Notary	
3	can't think of anything. I can't represent to	05:28:41p	3	Public, do hereby certify:	
4	you that there is not some specific issue or	05:28:43p	4	That CHRISTOPHER M. JAMES, the	
5	fact that I might not utilize, but it's a	05:28:49p	5	witness whose testimony is hereinbefore set	
6	summary of the issues that I will address -- I	05:28:55p	6	forth, was duly sworn by me and that such	
7	expect to address in my testimony	05:28:58p	7	testimony given by the witness was taken down	
8	There is one, actually, and	05:29:01p	8	stenographically by me and then transcribed.	
9	that has to do with in reviewing my report, I	05:29:06p	9	I further certify that I am not	
10	became aware that in some sense -- in certain	05:29:16p	10	related to any of the parties to this	
11	instances I state there are no Section 11	05:29:23p	11	action by blood or marriage, and that I am in	
12	damages, and I make reference to an analysis	05:29:30p	12	no way interested in the outcome of this	
13	of Section 11 damages, and just for the sake	05:29:35p	13	matter	
14	of completeness, I was referring to -- because	05:29:38p	14		
15	Section 11 and Section 12 damages are computed	05:29:44p	15		
16	in the same way, that I was covering under	05:29:48p	16	Pamela Harrison	
17	that umbrella both Section 11 and Section 12.	05:29:54p	17	Registered Merit Reporter	
18	Q. That's fine.	05:29:59p	18	Certified Realtime Reporter	
19	We're going to break. While we	05:30:00p	19	CSR-NJ # 30XI00221600	
20	are on the break, if you can think about	05:30:00p	20	Notary Public	
21	whether there is anything else you expect to	05:30:02p	21	Date: August 11, 2006	
22	opine on, I would appreciate it.	05:30:04p	22	(The foregoing certification of	
23	A. Sure.	05:30:07p	23	this transcript does not apply to any	
24	MR. COLLINS: Let's break.	05:30:07p	24	reproduction of the same by any means, unless	
				under the direct control and/or supervision of	
				the certifying shorthand	
				reporter.)	

LANTIER

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

IN RE: ADAMS GOLF, INC. : CONSOLIDATED

SECURITIES LITIGATION : C.A. NO. 99-371-KAJ

ORAL DEPOSITION OF BRIAN LANTIER

Monday, June 5, 2006

The oral deposition of BRIAN LANTIER
was held at the Wyndham Syracuse Hotel,
6301 Route 298, East Syracuse, New York,
from 12:00 noon to 4:59 p.m., before
Cynthia A. Sanders, a Certified Shorthand
Reporter in and for the State of New York
and Registered Professional Reporter.

<p style="text-align: right;">Page 38</p> <p>1 Q -- by you?</p> <p>2 38</p> <p>3 A These would have been my calls.</p> <p>4 MR. McEVOY: Wait for him to finish</p> <p>5 the question.</p> <p>6 Q And did you have a standard format that you</p> <p>7 used when you made your due diligence calls?</p> <p>8 A It was pretty informal.</p> <p>9 Q But you kept records of the calls?</p> <p>10 A I don't have the records, but I assume</p> <p>11 there was -- there would be -- there would have been a</p> <p>12 form of some sort that I would have written things</p> <p>13 down on.</p> <p>14 Q And did there ever come a time when you</p> <p>15 disposed of those notes?</p> <p>16 A No.</p> <p>17 Q Were they, to the best of your knowledge,</p> <p>18 in the files when you left Lehman Brothers?</p> <p>19 A They should have been. When I resigned,</p> <p>20 you just hand in your card key and you just leave, you</p> <p>21 just walk out; you don't get to pack up or anything.</p> <p>22 Q Can you recall any other due diligence that</p> <p>23 you did, that you wrote down in some form, other than</p> <p>24 the calls to Edwin Watts and similar calls that you</p> <p>25 just referred to?</p>	<p style="text-align: right;">Page 40</p> <p>1 clubs for the year, and then it continued on until</p> <p>2 40</p> <p>3 when the actual season starts in the northeast, into</p> <p>4 May.</p> <p>5 Q But at what point before the IPO had you</p> <p>6 begun the pro shop survey?</p> <p>7 A I can't give you a specific date, but it</p> <p>8 was before the IPO started.</p> <p>9 Q Sometime between the management meeting and</p> <p>10 the IPO?</p> <p>11 A The April meeting?</p> <p>12 Q Yes.</p> <p>13 A I would assume it would be after the April</p> <p>14 meeting.</p> <p>15 (Whereupon, Exhibit No. 226 was marked</p> <p>16 for identification.)</p> <p>17 BY MR. LEWIS:</p> <p>18 Q I have marked as 226 a document numbered</p> <p>19 UND-8587 through 8590 from Brian J. Lantier to</p> <p>20 Bernard J. Picchi on the subject of Adams summary.</p> <p>21 (Document handed.)</p> <p>22 (Witness reviewed document.)</p> <p>23 Q Do you recognize this document?</p> <p>24 A Yes.</p> <p>25 Q What is it?</p>
<p style="text-align: right;">Page 39</p> <p>1 A There were a number of calls. I mentioned</p> <p>2 39</p> <p>3 that was the retailer that stuck out in my head, but I</p> <p>4 do recall there being a list of 50 to 100 retailers,</p> <p>5 and we called a lot of them; we called the majority of</p> <p>6 them. That was the primary due diligence, because it</p> <p>7 was a retail product, you could see it going into one</p> <p>8 side and coming out the other side. So that was the</p> <p>9 primary due diligence that we did.</p> <p>10 Q Now, I don't want to skip too far ahead,</p> <p>11 but do you recall your research report that you</p> <p>12 generated on Adams in August of 1998?</p> <p>13 A Yes; I've seen a copy, yes.</p> <p>14 Q And it refers to, at some point, a pro shop</p> <p>15 survey?</p> <p>16 A Yes.</p> <p>17 Q Were the calls to Edwin Watts and other</p> <p>18 retailers that you just referred to part of what you</p> <p>19 later described as a pro shop survey?</p> <p>20 A I believe so, yes.</p> <p>21 Q So when did the pro shop survey begin?</p> <p>22 A It was ongoing, it was something that we</p> <p>23 did -- that I did pre-IPO, post-IPO into 1999. We</p> <p>24 would call as the club cycle began, mid-cycle when</p> <p>25 it's January, February and everyone is buying their</p>	<p style="text-align: right;">Page 41</p> <p>1 A This is an internal document created for</p> <p>2 41</p> <p>3 the sales department -- actually created for the</p> <p>4 research analyst to communicate with the sales</p> <p>5 department.</p> <p>6 Q And when you say sales department, are you</p> <p>7 referring to the department that dealt with sales</p> <p>8 institutions, or are you using the term more broadly?</p> <p>9 A They were principally institutional</p> <p>10 salespeople.</p> <p>11 Q Was this a draft that you created?</p> <p>12 A I'm not sure if this is the final or draft</p> <p>13 version.</p> <p>14 Q And what was the purpose of it?</p> <p>15 A It creates a series of talking points for</p> <p>16 the research analyst when discussing a potential IPO</p> <p>17 with the institutional sales department.</p> <p>18 Q And when a document of this type was</p> <p>19 finalized, to whom was it distributed?</p> <p>20 A I'm trying to think what the policy was,</p> <p>21 but, if I remember correctly, we would allow the</p> <p>22 salespeople to see these documents when they are</p> <p>23 finalized. But clearly it says for internal use; it</p> <p>24 never left the building, it never was to go out to</p> <p>25 customers.</p>

11 (Pages 38 to 41)

VERITEXT PA COURT REPORTING COMPANY
(215) 241-1000 (888) 777-6690 (610) 434-8588

1920df68-47f2-4c39-84d4-e4d47d54295d

Page 42

1 Q By the time you sent this document to
2 42
3 Mr. Picchi at the end of April of 1998, had you heard
4 the term gray marketing in connection with Adams Golf?
5 A April of '98? I'm not sure when I first
6 heard the term the gray market. I've seen that in a
7 lot of documents, the term gray marketing, and I'm not
8 sure that's an actual true definition, but it might be
9 some terminology that I can correct at some point.
10 Q Well, I would like to get to some
11 terminology that might save us some time.
12 A Um-hmm.
13 Q By the time the commitment committee at
14 Lehman had approved going forward with the Adams
15 offering, do you remember having heard of alleged
16 illegal distribution of Adams products?
17 A I believe it may have come up -- I don't
18 know when it came up. I remember hearing about it
19 prior to the IPO, and the determination was it was
20 such a small insignificant number of clubs, at the
21 time limited to one retailer, that it wasn't a --
22 going to have a material financial impact.
23 Q How did you hear of this illegal
24 distribution issue, as best you can recall?
25 A I can't recall whether it was -- how it

Page 43

1 came up; I don't know whether it was through pro shop
2 43
3 calls -- We had heard from conversations with pro
4 shops that there were some clubs showing up in big box
5 retailers, but if that was post-IPO or pre-IPO, I
6 can't recall.
7 Q From what pro shops did you hear that from?
8 A I can't recall. I mean, we spoke to
9 dozens, I don't know which pro shop that was.
10 Q Is it -- Just so we're on solid ground to
11 start with at least: Is it your recollection that the
12 first way that you heard of an illegal distribution
13 issue was through a pro shop rather than some other
14 source?
15 A I don't know how we -- how it may have come
16 up first.
17 Q Do you remember ever discussing the issue
18 of illegal distribution of Adams clubs with the
19 investment banking team prior to the IPO?
20 A I'm sure we may have discussed it at some
21 point, but I can't recall the -- It was not a high
22 priority, again because of the size. It was not --
23 There were far more pressing issues.
24 Q What were they?
25 A The potential outlook for competition, new

Page 44

1 clubs being buzzed by Callaway or Title Lies and
2 44
3 Orlimar's filing; all those were things which we
4 focused a lot more attention on.
5 Q What did you learn about the number of
6 clubs that made -- Strike that.
7 You said that a determination was made that
8 the number of clubs was small and insignificant. Who
9 made the determination that the number of clubs was
10 small and insignificant?
11 A I don't recall who may have made that
12 specific determination, but I remember calling around
13 to Costco's when the issue first came up, and I
14 couldn't find the clubs on the east coast; so we had
15 some understanding that they were not in the east
16 coast. And as, you know, we went along, we could not
17 locate any of these clubs. So we assumed that if it
18 was going on, it was not, you know -- In a company
19 that was selling 600,000 clubs a year, a few thousand
20 clubs wasn't going to make or break their year.
21 Q And was it your conclusion, prior to the
22 IPO, that there were a few thousand clubs out there
23 that had gotten into Costco's?
24 A No, we didn't have a firm number. The
25 first time I ever saw a number was in your complaint,

Page 45

1 I had not seen a number prior to that.
2 45
3 Q Were you ever a participant in a meeting at
4 Lehman Brothers that involved the discussion of the
5 size of the possible Costco distribution of Adams
6 products?
7 A I don't believe prior to the -- I don't
8 know that I had a meeting prior to the IPO to discuss
9 that.
10 Q Do you know of a meeting having taken place
11 prior to the IPO?
12 A That discussed --
13 Q To discuss the subject --
14 A To discuss the clubs and Costco?
15 Q Yes.
16 A No; no, I don't recall any meeting.
17 Q Did you participate, prior to the IPO, in
18 any discussion of the risk that distribution of Adams
19 products in Costco stores might pose in the future to
20 the company?
21 A That, I don't -- I don't recall a specific
22 conversation. Clearly, as I was doing the research,
23 it came up in our research report, that the clubs were
24 there. At that point, I would have addressed it with
25 the company, but that was post-IPO. So pre-IPO, I

12 (Pages 42 to 45)

VERITEXT PA COURT REPORTING COMPANY

(215) 241-1000 (888) 777-6690 (610) 434-8588

1920df68-47f2-4c39-84d4-e4d47d54295d

<p style="text-align: right;">Page 178</p> <p>1 the issue of Callaway and Orlimar would come up in 2 178 3 seven or eight of those calls. 4 Q When the question of Costco was raised, did 5 the investors ever say why they were raising the 6 issue? 7 A Not that I can recall, no. 8 Q Are you familiar with the name of 9 King Parr? 10 A I was not until a day or so ago when I read 11 the complaint. 12 Q Are you familiar with the name of 13 Manatee Golf? 14 A No. 15 Q I take it you never called them in the 16 course of your -- 17 A No. 18 Q -- pro shop survey? 19 A Or at least I don't recall calling them. 20 Q Do you recall Adams ever informing you as 21 to who was responsible for the unauthorized 22 distribution of its products? 23 A I don't recall ever getting resolution on 24 that. 25 MR. LEWIS: Nothing further.</p>	<p style="text-align: right;">Page 180</p> <p>1 going to require a lot of sales and some really 2 180 3 attractive financial statements, and which, coupled 4 with Adams introducing a new club, in a marketplace 5 that was not -- It was not typical for people to go 6 out and buy a \$200 fairway wood. Prior to Adams and 7 Orlimar introducing these clubs, they were 8 typically -- If you had one of these, you used it, 9 but no one went out and bought one. So they were 10 introducing a new market. And it was a market that 11 was being seized upon by Callaway, Orlimar and Adams. 12 And, in retrospect, we thought they were 13 going to be a little more insulated than they were. 14 Those would be my observations on what impacted them. 15 We did not see that on August 4th -- Is 16 that the date of this? August 4th, yes. 17 Q I'm going to ask you a similar question 18 about Exhibit 180. 19 We looked at this document earlier and you 20 testified that you took part in authoring it, and it's 21 dated August of 1998. And I will turn you to page 20, 22 which is Bates labeled 4054, and the paragraph that's 23 tagged valuation. And it -- In the second sentence 24 of this paragraph it says that: Negative sentiment 25 has settled around the entire golf industry following</p>
<p style="text-align: right;">Page 179</p> <p>1 MR. McEVOY: I have nothing. 2 179 3 MS. MORIATY: I only have two. 4 5 EXAMINATION BY MS. MORIATY: 6 Q I'm going to turn you first to Exhibit 179. 7 MR. LEWIS: What date is that? 8 MS. MORIATY: August 4th, 1998. 9 Q Okay. This report is dated August 4th, 10 1998. In this report you write that: Recently 11 Callaway Golf commented that a domestic demand for 12 golf clubs is weak. And then you go on to say that: 13 Adams Golf is not being affected by this. 14 In retrospect, is it true that Adams Golf 15 was not being affected by the weakness of domestic 16 demand for golf clubs on August 4th, 1998? 17 MR. LEWIS: Objection to form and 18 foundation. 19 A In retrospect, to say that they were not 20 affected at all on August 4th, was probably not a 21 correct statement. 22 Q Why is that? 23 A There was a combination of events which led 24 to new product introductions from Callaway, Orlimar 25 pushing toward their own IPO, which they knew was</p>	<p style="text-align: right;">Page 181</p> <p>1 a series of press releases from companies like 2 181 3 Callaway Golf, Title Lies, Arnold Palmer Golf and 4 Golden Bear Golf 5 You go on again to say that: These 6 negative sentiments that affected these other 7 companies shouldn't affect Adams Golf. 8 Can you tell me if any of those sentiments 9 were affecting Adams Golf as of the date of this 10 report? 11 MR. LEWIS: Objection to form and 12 foundation. 13 A Yes. I think in retrospect again, if we 14 had -- At the time, the thing was, that part of the 15 weakness seen by Title Lies, Callaway, to a lesser 16 degree Arnold Palmer and Golden Bear, the weakness 17 that the major manufacturers were seeing were 18 attributable to Adams and Orlimar; and I think that 19 was true through the first part of the summer. 20 As we got into the second part of the 21 summer of 1998, then there were market saturation; too 22 many clubs, not enough buyers, and we didn't 23 accurately capture that turn in the market. It was, 24 the market has shifted and it's not just Adams and 25 Orlimar are taking share from Callaway and TaylorMade.</p>

46 (Pages 178 to 181)

<p style="text-align: right;">Page 182</p> <p>1 And that was something -- I don't know how we would 2 182 3 have seen that other than it was something that was 4 going to lag. We were going to lag that by watching 5 total -- We could see the shifts in market share, but 6 we could not see the shifts in total sales until about 7 three months after the affect. 8 And, you know, I wish the timing could have 9 been a little better, but it didn't work out with 10 those events. They were clearly canaries in the coal 11 mine for what was coming for Adams, and those press 12 releases were pretty important. 13 MS. MORIATY: Okay. That's all I've 14 got. 15 MR. McEVOY: Okay. Any follow-up? 16 MR. LEWIS: No. 17 MR. McEVOY: That's it. 18 (Whereupon, the proceedings were 19 adjourned at 4:59 p.m.) 20 21 * * * 22 23 24 25</p>	<p style="text-align: right;">Page 184</p> <p>1 Notary Public] 2 184 3 4 5 6 CERTIFICATION 7 8 9 I, Cynthia A. Sanders, Court Reporter 10 and Notary Public in and for the State of 11 New York, do hereby certify that I attended 12 the foregoing proceedings and took 13 stenographic notes of the same, and that 14 the annexed foregoing printed matter is a 15 true and accurate transcript of the same, 16 and of the whole thereof, to the best of my 17 knowledge and ability. 18 19 20 21 22 23 24 25</p> <p style="text-align: right;">Cynthia A. Sanders Notary Public</p>
<p style="text-align: right;">Page 183</p> <p>1 2 183 3 STATE OF NEW YORK : 4 :ss. CERTIFICATE OF WITNESS 5 COUNTY OF ONONDAGA : 6 I, Brian Lantier, hereby certify that I 7 have read the foregoing transcript of my deposition 8 taken June 5, 2006, at approximately 12:00 p.m., at 9 East Syracuse, New York, pursuant to the applicable 10 Rules of Civil Procedure, and that the foregoing 11 182 pages of transcript are in conformity with my 12 testimony given at that time (with the exception of 13 any corrections made by me, in ink, and initialed by 14 me). 15 16 Brian Lantier 17 18 19 STATE OF NEW YORK : 20 : 21 COUNTY OF ONONDAGA : 22 SUBSCRIBED AND SWORN to before me, the 23 undersigned authority on this, the _____ day of 24 _____, 2006. 25</p>	<p style="text-align: right;">Page 185</p> <p>1</p>

47 (Pages 182 to 185)

VERITEXT PA COURT REPORTING COMPANY
(215) 241-1000 (888) 777-6690 (610) 434-8588

1920df68-47f2-4c39-84d4-e4d47d54295d